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EGYPT

COUNTRY STRATEGY PAPER

2007-2013

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SUMMARY

The Country Strategy Paper (CSP) drafted under the European Neighbourhood Partnership Instrument (ENPI) provides a strategic framework for cooperation between the European Union (EU) and Egypt for the period 2007-2013. This document sets out the EU's policy and cooperation goals, together with its intended strategic response, and identifies appropriate priority objectives. Against this background, the National Indicative Programme (NIP) presents the European Union's response in terms of financial assistance and gives details of the specific operations planned and of the expected results for the period 2007-2010.

The legal basis for Egypt's relations with the EU is the Association Agreement (AA) which was signed in 2001 and entered into force in 2004. Egypt has engaged with the EU in negotiating a European Neighbourhood Policy (ENP) Action Plan. The joint Action Plan is expected to be adopted in 2006 for the following three to five years. It will provide a comprehensive policy framework for developing relations between Egypt and the EU, based on an agenda of mutual commitments on political, social and economic issues, centred on common values shared by Egypt and the European Union.

During the first and subsequent years of implementation of the EU-Egypt Action Plan, regular dialogues will be held between the EU and Egypt through nine technical subcommittees which will be established once the Action Plan is in force. These subcommittees will oversee implementation and monitoring of the different chapters and thematic undertakings in the Action Plan and will allow the two sides to set specific annual priorities. Egypt has drawn up a reform agenda for the years ahead, which sets detailed priorities and objectives to address national challenges. The Action Plan is consistent with Egypt's reform agenda.

Three main priority objectives have been set for this first Country Strategy Paper under the European Neighbourhood Policy:

- political reform and good governance;
- competitiveness and productivity of the economy;
- socio-economic sustainability of the development process.

A total of €558 million will be allocated to the 2007-2010 National Indicative Programme to support these three priorities, drawing on EU financial assistance under the European Neighbourhood and Partnership Instrument (ENPI).

1. EU COOPERATION OBJECTIVES

To share the benefits of the EU's 2004 enlargement with neighbouring countries by strengthening stability, security and well-being, the European Union developed the European

Neighbourhood Policy (ENP). It is designed to prevent the emergence of dividing lines between the enlarged EU and its neighbours and to offer them the chance to participate in various EU activities, through greater political, security, economic and cultural cooperation. An important component in this process is the ENP's concern for strengthening security in the EU's neighbourhood (as proposed in the European Security Strategy of December 2003).

The Euro-Mediterranean Partnership launched at the 1995 Barcelona Conference established the principles of cooperation between the European Union and its Euro-Med partners on political and security, economic and financial, and social, cultural and human issues. Egypt has played a dynamic role in this partnership. The EU's Association Agreement with Egypt entered into force in 2004.

The Association Agreement provides a comprehensive legal framework for the economic, political and social dimensions to the partnership between the EU and Egypt. The European Union and Egypt are engaged in the task of enhancing their relations and in promoting peace, stability, security and well-being, building on Egypt's links with Europe, the Mediterranean region, the Arab region, Asia and Africa.

The European Neighbourhood Policy vis-à-vis Egypt is based on respect of Egypt's identity, specific circumstances and stated aims to develop and modernise all sectors of its society and economy. The Government strategy is reflected in the National Development Plan for 2002-2007 and defined more closely in the Government priorities presented to Parliament in January 2006.

The joint ENP Action Plan provides a common framework for strengthening relations between the EU and Egypt. It is a fundamental reference for defining the EU's strategic approach to a major partner, Egypt. The ENP will ensure consistency between joint cooperation priorities and other core EU policies.

Through the ENP, the EU's comparative advantage as a trade and political partner will be strengthened. The prospects for closer economic relations, political cooperation and regulatory approximation in relevant fields will contribute to enhancing Egypt's partnership with the EU. The ENP is well-suited to supporting Egypt's reform process. However, to reap the full benefit from this partnership, Egypt will need actively to pursue its reform agenda proposals for improving the economic, political and social situation in the country. Considering Egypt's budget constraints and high unemployment, the EU recognises the challenges Egypt faces in delivering the promised reforms. One fundamental concern for the EU is to support Egypt in this process, to improve the welfare of the population and to help Egypt to develop a stronger partnership with the EU.

Building on the solid foundations laid by the cooperation under the MEDA programme which began in 1995 and which has generally been implemented satisfactorily, the EU considers that the impact of its financial assistance can be maximised by: i) focusing on Egypt's own agenda of reform to increase ownership; ii) contributing to implementation of the Action Plan and ensuring consistency with the range of EU policies; and iii) focusing on a limited number of specific objectives in key sectors in which the EU and Egypt have a strategic interest and where the EU's added value has the greatest potential to bring about the desired result.

Given the ambitious agenda of the ENP and the scale of the challenges facing Egypt, the EU will seek wider involvement of other key players in the country in order to achieve its strategic policy objectives.

The EU promotes its values and interests as a global economic and political player by using various instruments, such as the Common Foreign and Security Policy (CFSP), development assistance and trade. The EU is striving to promote prosperity, solidarity, security and sustainable development worldwide.

The “European Consensus on Development” adopted in November 2005 provides a common vision that guides the action by the EU on development cooperation, at both Member State and Community levels. This new development policy reaffirms the key principles of aid effectiveness, namely national ownership, partnership, alignment and results orientation. Questions relating to harmonisation and coordination of development aid are addressed in the Paris Declaration on Aid Effectiveness.

In December 2005, the European Council adopted the EU strategy for Africa, which provides a long-term framework for co-operation with Africa at all levels: with pan African institutions such as the African Union, regional organisations and national administrations. The strategy is based on three pillars : (i) supporting peace, stability and good governance as pre-conditions for development; (ii) develop regional integration, trade and inter-connectivity to promote economic development (iii) improve access to basic social services (health and education) and the protection of the environment. For partner countries covered by the ENP, including Egypt, the country strategy paper contributes to and is coherent with the objectives of the EU strategy for Africa.

2. EGYPT’ S POLICY AGENDA

Over the last 20 years Egypt has made substantial progress on rebuilding internal and external security and pressing ahead with economic reform, slowly at first but ambitiously during the 1990s and with renewed vigour since July 2004. Social reform has lagged behind, but is now seen as a priority.

Egypt’s long-term programme is set out in its National Plan (1997-2017). This has been accompanied by a series of five-year plans, some of which have been based on over-optimistic assumptions on economic growth and an increase in habitable land from 5% to 25% of Egypt’s surface area. The current five-year National Development Plan (2002-2007) reflects the present situation more realistically.

The 2002-2007 plan aims to:

- improve the quality of life and standard of living; increase employment opportunities and reduce unemployment; reduce poverty incidence and provide social security for poor families; eradicate illiteracy and develop school and higher education;
- enhance the state of institutions based on respect for human rights and public freedoms; enhance judiciary independence; expand participation in political life; and enhance human resources and build up institutional capacity;

- increase rates of economic growth and investment; increase female participation in development; achieve a significant expansion in production and export capacity; improve industrial potential; promote innovation, scientific research and technological development; and preserve the environment.

The priorities listed above are incorporated in President Mubarak's campaign pledges that formed the platform for his sixth term in office as head of state, which placed particular emphasis on political reform, job creation, and improvement of living standards, social security reform and an ambitious foreign policy. The Government under Prime Minister Nazif (appointed in 2004) has pledged to continue to focus on economic reform (reform the financial sector, liberalise the business environment and pay attention to economic governance issues) and to pay greater attention to social reform (education; health, in particular reform of health insurance; job creation measures; and extension of the social safety net). Progress on decentralisation and democratisation are the priorities in the area of political reform.

The objective of the Egyptian Government is to achieve growth with equity by developing the private sector and reducing the Government's role in managing the economy. This is to be achieved by improving the business climate, *inter alia* by means of action on trade, finance and taxation. The public sector is to focus on providing services such as infrastructure and education and on ensuring macroeconomic stability. This strategy is intended to tackle the severe problem of unemployment and under-employment, exacerbated by the rapidly expanding labour force. The employment challenge facing the Egyptian authorities is immense. The economy needs to grow sufficiently to absorb some half a million new job-seekers into the labour market each year. According to the World Bank, Egypt needs to achieve sustained real GDP growth of at least 7 percent annually to bring unemployment down to more manageable levels.

On the equity side of the current five-year plan, social policies include social insurance mechanisms. To address the needs of the most disadvantaged groups, the Government is seeking to strengthen the social safety net system and make it more effective by means of administrative decentralisation, community-based approaches and contributions by NGOs.

A first comprehensive poverty assessment was completed in 2002 and a Poverty Reduction Strategy for Egypt was published in September 2004, both with the support of the World Bank. Poverty is mostly concentrated in the south, and its features are no different than those found in other Middle East countries: large families, low level of education and working in the informal sector, mainly in agriculture and construction. The fight against poverty is one of the objectives of the fifth Social Plan of the Government (FY03-FY08) which includes development of human resources (through literacy and education) and employment.

According to this document, empirical analysis of poverty trends and characteristics in Egypt suggests that three sets of factors are critical for the poor: income-earning opportunities, education and social safety nets. The poor engage in a wide variety of income-earning activities across all sectors. Such opportunities are better in growing economies, which is why ensuring steady growth is considered one of the more effective ways to raise the incomes of the poor. Poverty in Egypt also has a strong inter-generational dimension. The poor of one generation are typically the children of the poor of the previous generation.

Access to literacy and education, especially for children, is a way of enhancing the potential for future earnings and of breaking the cycle of inter-generational transmission of poverty. Finally, some individuals are unable to obtain adequate incomes despite being fully active (either self-employed or working for wages), while others among the poor cannot participate meaningfully in mainstream economic activities on account of handicaps such as physical disability, illness or remote location. For this segment of the population, public and private transfers, in cash or in kind, provide a critical safety net.

Both international and Egypt's experience suggest that sustained economic growth is a necessary, though not sufficient, condition for reducing poverty. Poverty rates declined substantially in Egypt between 1995/1996 and 1999/2000 (from 19.4 percent to 16.7 percent) as the economy enjoyed a period of high growth averaging 5 percent per annum. The Millennium Development Goals (MDG) Reports forecast that the percentage of Egyptians classified as poor will decrease from 25% in 1990 to 13% in 2015.

An appropriate anti-poverty strategy should be based on macroeconomic and structural policies that promote sustained economic growth. These should include prudent monetary and fiscal policies aimed at low inflation, trade and exchange rate policies aimed at enhancing competitiveness and increasing integration with world markets, and deregulatory policies aimed at widening the scope for private-sector-led growth.

The MDG Reports note that the Egyptian Government has continued to pay attention to critical areas of development, such as health, education, access to water and sanitation, and improving the livelihoods of the most deprived segments of the population. However, the pace of progress varies between goals: fast and sustained in some areas (child and maternal mortality, water and sanitation), acceptable in others (education and poverty reduction), while somewhat slow in the rest (empowerment of women and protection of the environment).

Egypt will also have to step up its efforts and investments in order to maintain the current rate of progress on some specific indicators (in the area of poverty, mortality rates and combating major diseases). Despite the progress achieved in recent years, there is still a lot to be done on gender issues. Empowering women so that they can contribute to and benefit from economic and social progress is a precondition for sustainable development in Egypt.

A Country Report on Egypt was published by the European Commission in March 2005. It assessed bilateral relations between the EU and Egypt, reflecting progress under the existing Association Agreement and describing the situation in areas of particular interest for the ENP: development of political institutions based on the values enshrined in the Agreement – democracy, the rule of law and human rights; regional stability and cooperation on justice and home affairs; and economic and social reforms that will create new opportunities for development and modernisation, for further liberalisation of trade and for gradual participation in the internal market.

3. ANALYSIS OF THE POLITICAL, ECONOMIC AND SOCIAL SITUATION

Political aspects. Following the commitments made in the 2002-2007 National Development Plan, hopes about democratisation were raised by the promises of political reform announced by President Mubarak during his 2005 Presidential campaign. However, the first-ever multi-candidate Presidential elections suffered from serious restrictions and, since then, progress on delivering the promised reforms has been slow.

A number of these proposed reforms aim at tackling structural problems which have seriously hampered development of this process: low participation in political life (23% turnout in the first-ever multi-candidate Presidential elections in 2005 and 26% in the 2005 parliamentary elections); the exclusion of certain political movements and groupings from the political arena (the Muslim Brotherhood is banned as a party but members of it were elected in 2005 as independents - 88 out of a total of 444 members of parliament); a fragile culture of democracy and of recognition of civil and political rights; centralisation of powers and decisions; and continuation of the emergency law introduced in 1981 after the assassination of President Sadat, and which is to blame for accusations of human rights violations. Guaranteeing the independence of the media, freedom of expression and assembly, and the independence of the judiciary are other key challenges for political reform in Egypt. Local governance forms part of the national development plan 2002-2007. The current Government reform agenda also calls for a gradual and phased process of decentralisation as a means to achieve sustainable development and improve quality and delivery of services across the country, and to reduce the prevailing regional disparities on human development.

Some progress has been made in recent years on protection of human rights. One significant advance is the creation of the National Council for Human Rights under the chairmanship of the former UN Secretary-General, Boutros Boutros Ghali. The Council has raised expectations, both internally and internationally, about improving the human rights situation in Egypt. Its first two annual reports frankly described shortcomings in the state's record on human rights. Other steps taken include the establishment of special departments for human rights within some ministries, the Parliamentary committee for human rights and the inclusion of human rights subjects in schools. Issues of concern to the EU are the use of torture, poor prison conditions, corruption and gender-based discrimination. These concerns were voiced in the EU's position paper published for the EU-Egypt Association Council in June 2006.

The functioning of the judiciary is hampered by the lack of independence from the executive, the backlog of cases, delays in resolving disputes and the persistence of the Law on the State of Emergency. Comprehensive legal reforms are planned in order to improve judicial efficiency and certainty. Despite some recent improvements, the general situation in a number of prisons and detention centres is poor.

Egypt has acquired considerable experience in managing international migration and its policies in this area are quite articulate. The EU is becoming increasingly important as a destination for Egyptian migrants. Migration from (and via) Egypt to Europe includes both legal and illegal migrants (many of the latter are from South Asia). Efforts to fight illegal

migration will have to be intensified while management of economic migration could be strengthened at the same time. This could include mutual recognition of expulsion decisions, plus assistance in cases of transit for the purpose of removal by air and in combating trafficking of human beings, to which the EU is paying greater attention.

Egypt is also focusing its efforts on stepping up the fight against terrorism, organised crime, money laundering and drugs. Egypt has been active in these fields for many years, building up significant experience: its action could nevertheless be made more effective and increasingly linked to Europe's activities in the same fields. For example, Egypt will be encouraged to support the role of the UN in this regard, to adopt the relevant UN Conventions and Protocols, and to support agreement on a Comprehensive Convention against International Terrorism.

Egypt plays a strategic role in peace and stability in the region. In the Middle East peace process, Egypt has regularly mediated in the dispute between Israel and the Palestinian Authority and has backed EU/Quartet approaches to encourage a return to the Road Map. Egypt made a significant contribution to facilitating the EU's border monitoring presence at Rafah, allowing persons to move between Gaza and Egypt. As host to the Arab League, Egypt is a leading voice in the Arab world. It is also an active player in issues concerning Africa.

Economic situation. Egypt is ranked as a lower-middle income country, with a population of about 71.8 million. Agriculture accounts for 16% of GDP and plays an important part in the economy. Industry and services account for some 34% and 50% of GDP respectively. Tourism is a key contributor to the services sector. With a (goods and services) export/import ratio of about 45% the economy is relatively open. Energy remains a key component of the economy. Oil exports generate 40% of export earnings, while oil and electricity make up 20% of GDP. Gas earnings are increasing, including from exports to the EU.

Since July 2004 the Egyptian Government has been actively carrying through economic reforms. Bold trade, tax and financial reforms have led to a bounce back in confidence reflected in resurgence in stock market activity. Economic performance was driven initially by exports of goods and services (primarily tourism) and is now more widespread with the resumption of construction activity. Real GDP grew by an estimated 4.9% in FY05 and is forecast to reach 6.0% in FY06.

Notable steps taken by the Government include reduction of the average tariff rate from 14.6 to 9.1%, reduction of the number of tariff bands, and abolition of import fees and surcharges. In the area of fiscal reform, the Government has restructured the income tax law, simplifying the rate structure and cutting the personal and income tax rates.

With help from the IMF, budgets are now presented in line with international standards. The privatisation process has been re-launched and between July 2004 and March 2005 seventeen non-financial companies were privatised. The Government has made substantial progress on its comprehensive five-year plan for restructuring the financial sector, with the sale of its stakes in joint venture banks, consolidation of the sector through mergers, launching of privatisation of one of the four large state banks and progress with the reform of the non-bank financial sector which helped exchange rate stability and improved the

investment environment. Inward foreign direct investment reached €3.3 billion in the 2004/2005 fiscal year.

The EU-Egypt **Association Agreement** - now in its third year of implementation - shapes bilateral trade relations in the context of the Euro-Mediterranean partnership. Under its tariff dismantling provisions, half of the EU's industrial exports to Egypt will soon be fully liberalised, while bilateral preferences in agriculture have significantly opened up market access, particularly for Egyptian produce. With an average of €10 billion of **bilateral trade** since 2000 and a steady upward trend since the entry into force of the Association Agreement (€1.5 billion in 2004 and €3.3 million in 2005), the enlarged EU accounts for nearly 40% of Egypt's total trade with the world. At **Euro-Mediterranean** level, Egypt is in the process of negotiating with the EU on liberalisation of services, right of establishment and agriculture. Work is under way to harmonise technical legislation, standards and conformity assessment procedures, and in the case of rules of origin Egypt has now adopted the new Pan-Euro-Med Protocol which will soon allow diagonal cumulation of origin within the Euro-Mediterranean Area. On international trade relations, Egypt has signed a number of free trade agreements, including the Pan-Arab FTA, COMESA and sub-regional agreements, such as the Agadir Agreement and the FTA with Turkey. It plays an important role, as an emerging economy and key regional player, in the WTO DDA negotiations. This more dynamic and open posture in Egypt's trade policy is the result of the reform drive of the Government appointed in 2004. This has addressed a number of trade facilitation reforms, including the long due – but yet to be fully delivered – customs reform. Egypt has stated that it intends to implement the World Customs Organisation's "framework of standards to secure and facilitate global trade".

Agriculture remains one of the most important sectors of Egypt's economy. Productivity gains since the mid-1980s, achieved through long-term Government commitments to policy reform and liberalisation coupled with assistance from donors, have helped sharply to increase grain and vegetable production, closing the gap between domestic food supply and demand. Nevertheless, Egypt remains a major net food importer. In its trade relationship with the EU, Egypt is seeking better market access, in line with the Euro-Mediterranean road map towards trade liberalisation, for products in which it holds a natural comparative advantage: this calls for continuing cooperation on SPS (sanitary and phytosanitary) matters. In addition, attention is demanded in areas complementing agricultural trade, in particular on rural development and development of the quality of production.

Over the last few years Egypt has incurred a series of heavy budget deficits. The central Government deficit reached 9.1% of GDP in 2004-2005. According to IMF estimates, this figure should decrease to 8.3% and 8.1% in 2005/2006 and 2006/2007 respectively. In spite of expected improvement, efforts towards curbing the budget deficit and fiscal consolidation must continue. This will put public debt on a declining path and stimulate private investment and growth. In improving public finance management, special attention will need to be paid to public internal financial control.

The Central Bank of Egypt (CBE) has introduced greater coherence in monetary management, adopting a series of measures to bring greater sophistication to monetary policy and to move away from direct intervention. As regards the banking sector a new Unified Banking Law has been adopted aiming *inter alia* at application of new minimum equity ratios, of more rigorous supervision rules by the CBE and of Government

privatisation policy. The supervisory role of the CBE needs to be strengthened. The reform also addresses restructuring of the insurance sector, development of the capital markets and activation of other financial services.

Progress has been made on improving the economic situation, but much still needs to be done. Persistent weaknesses in the business environment have constrained manufacturing performance. These have only recently been addressed in the customs tariffs and in other fiscal fields. One drawback is the inability to enforce new economic legislation effectively, often due to weaknesses inherent in the institutions regulating the economy. The private sector faces an uncertain commercial law system in which transparency, competition and enforcement of contracts are far from satisfactory. Improving corporate governance is a major challenge to attract and sustain investment.

Finally, statistical data suffer from poor credibility in Egypt. A comprehensive programme by the Government of Egypt to modernise the statistical apparatus is under consideration.

Social development. Despite some improvements in social indicators over the past few decades, over the period 1990-2002 an estimated 44% of the Egyptian population was living on less than €1.7 a day (upper poverty line). Egypt is ranked 119th out of 177 countries according to the UNDP's Human Development Indicators for 2005. Given population growth of 2% per year and around 600 000 new entrants to the labour market every year, per capita growth has increased only modestly. Unemployment is officially measured at 10%.

Although poverty decreased over the reference period, regional disparities did not (HDR 2005, MDG Reports). Experience in Egypt confirms that poverty is closely and inversely correlated with education, with almost half of the poor in the country being illiterate (versus less than 30% of the "non-poor"). Egypt suffers from a major structural problem (jobs are mainly concentrated in low-productivity, non-tradable sectors), with no visible link between productivity gains and employment generation. Long-term sustainability of growth and poverty reduction strategies could be jeopardised by job creation concentrated mainly in non-tradable public sectors. At the same time, the private sector is not yet sufficiently appealing in terms of comparative wage gains to attract highly skilled manpower.

Underemployment, both visible and invisible, is widespread generating considerable economic loss, estimated to affect 7.5% of the working-age population (15-64). The gender differential is considerable, with unemployment affecting females 2.5 times more often than males. The private sector has not been able to compensate for the slowdown in public-sector hiring of graduates and is unable to absorb the explosive growth of new technical secondary graduates forecast for the years ahead who will be seeking work in industry and agriculture. Universities have some way to go to adapt their curricula to the needs of the labour market, in terms of both the nature of the training provided and of the level of skills required.

Although significant steps have been taken by Prime Minister Nazif since July 2004 on economic reform, social reforms have not received the same degree of attention. The authorities have been engaged in a dialogue with international organisations (the WB and WFP) on a substantial review of the subsidies system in order to improve their targeting and move away from the present generalised subsidies. In January 2006 PM Nazif announced in Parliament that the fight against unemployment (*inter alia*, through increased micro-credit projects), extension of social protection and the reform of education (enhancing quality) and

health (restructuring the health insurance system) would be at the top of his new Government's agenda. This vision is developed in the Egypt Human Development Report for 2005 published in January 2006.

Egypt, in collaboration with the ILO, has produced a National Plan to combat the worst forms of child labour. An average working child's revenue makes up 29% of his or her family's income. 73% of working children are employed in agriculture.

A new Labour Law has been enacted, but its effects on the labour market remain to be assessed. Egypt's efforts at improving social rights and core labour standards, including trade unions' rights and social dialogue, have not yet yielded the expected results.

In the central Government's draft budget for FY04, 15% of public expenditure is earmarked for education and 5% (1.74% of GDP) for health. Progress was reflected in many education indicators (enrolment rates in basic and secondary education, and adult literacy) and health indicators (infant mortality rate, percentage of vaccinated children and the maternal mortality rate). Despite the progress made, concerns remain about the low efficiency and insufficient amount of Government spending, poor quality of basic education and vocational training, and insufficient access to education and health services. The Government has recently taken steps to improve the efficiency of the skilled labour market.

In general, in the education system overstaffing is widespread, teacher hiring and deployment is inefficient, and educational quality is consequently poor, cost-sharing far from optimal and expenditure not well coordinated, leading to ineffective planning and management, as well as to wide deviation from the allocated budgets.

Technical vocational education and training (TVET) still works as a second chance for educational failures, rather than as a key service for enterprises and an effective instrument for inclusion in the labour market. Likewise, a true system for monitoring the labour market to collect and professionally manage figures on flows on the labour market and TVET is missing. The employment services matching labour supply and demand, and counselling and advising the hard to place, are weak.

In the context of new labour market dynamics, industrial sectors expecting to face major restructuring cannot rely on flexible TVET systems allowing mobility, and entrepreneurs complain about the lack of a reliable skills upgrading and certification system, not to mention the inability of the system to address the needs of the informal sector.

The population dynamics, modest growth rates and low spending on national health services have led to a financially unsustainable health system and health scheme. The prospects of improving the situation in the medium term through budget and tax measures do not look hopeful. Due to the ineffectiveness of piecemeal reforms, the Government has decided to set about a more comprehensive reform of the health and insurance sectors.

In spite of improvements in literacy rates, enrolment rates, labour force participation, and underemployment, there remains a gender gap in favour of men. Egypt ranks poorly on women empowerment. Women participation in the labour force increased from 18% to 23.9%, and the female unemployment was 24% in 2004. Egypt major challenge will be to improve women's participation in the decision making process and address the serious

gender-related health risks, such as genital mutilation (90% of married women) and uncontrolled birth rates.

Infrastructure, transport, energy, the environment and natural resources

The Government of Egypt has been gradually liberalising and privatising the transport sector. Road is the dominant mode of inland transport, both for passenger and freight services. Policy in this sector is aiming at raising standards and operating performance, developing infrastructure, promoting private-sector investment, providing for clean and efficient urban transports and enhancing road safety. Road safety is a major concern, with one of the highest incidences of traffic fatalities in the world. Policy is aiming at promoting a shift in freight transport from road to rail and river. In the rail transport sector, policy is aiming at developing efficient and sustainable rail services for both passengers and freight.

In the light of the importance of maritime transport for external trade, improvement of the efficiency of seaports and maritime operations is a major policy goal. The ongoing port reform programme is focusing not only on developing the infrastructure and superstructure but also on strengthening port authorities and separating the regulatory and commercial functions. Maritime transport policy is also aiming at developing the fleet, strengthening maritime safety and security and promoting foreign and national private investment. In the aviation sector the focus is on implementing the existing national aviation policy, the liberalisation of the aviation market, the regulatory approximation and the implementation of EU and international safety and security standards. This includes further reinforcing administrative capacity (including the planned separation of the regulatory and management functions of the ECAA) and raising safety and security standards.

Egypt is emerging as a gas exporter and as a transit country for energy supplies from the Arabian Gulf to the Sumed oil pipeline. In the longer term further development of the Arab Natural Gas Pipeline currently bringing Egyptian gas to Middle East markets could play a role in enhancing security of supply in the region and the EU. Energy contributes substantially to the economy but, neither a long-term strategy nor a market-based legal and regulatory environment for the sector, have been developed. Declining oil exports account for 40% of export earnings and oil and electricity for 20% of GDP. Egypt is a rapidly expanding natural gas producer, thanks to sizeable discoveries which offer significant opportunities for increasing exports, especially to Europe. The Government's gas development policy is key to meeting surging energy demand, increasing revenue and improving the environment. Egypt has set a target of meeting 3% of its primary energy needs from renewable sources by 2010. The most promising sources are hydro, wind and solar but Egypt lacks a legislative framework and economic incentives enabling introduction of energy-efficiency measures and use of renewable energy sources. In September 2006 Egypt announced that it intended to re-launch its civilian nuclear energy programme after a twenty-year lull.

The national environmental action plan covers a period of 15 years (2002-2017) encompassing priority areas such as water quality, air quality, management of land resources, desertification, protection of the marine environment, solid waste management, biodiversity and biological safety. Integration of environmental considerations into all relevant national policies, plans and programmes is considered an overall strategic objective of Egypt's environment policy.

Environmental protection in Egypt is hampered by institutional weaknesses such as responsibility for environmental legislation being shared between various ministries and agencies, the limited decision-making powers of local administrations, especially those dealing with water supply and sanitation, and the fact that environmental costs are not properly reflected in prices. In particular, the whole water management system suffers from a fragmented and weak legal/regulatory framework, leading to very low efficiency in water use, very high leakages (estimated at more than 50% on average) and poor average quality of the water itself and of the water supply and sanitation service to consumers¹.

One critical issue is the ability to preserve the Nile's dilution capacity. Even more daunting are the challenges linked to wastewater, sanitary facilities, and the health and environmental risks associated with inadequate sanitation infrastructure. The World Bank has put the cost of environmental damage in the water sector at around 1% of GDP (lack of safe drinking water and of sanitation). Meanwhile water is a heavy burden on the budget. The tariff structure poses problems: it is unbalanced and inequitable.

Science, technology and development, innovation and information society

The S&T priorities identified by the Government are health, biotechnology, nanotechnology and materials, ICT, as well as paramount natural resources in such 'traditional' sectors like water and energy (e.g. solar). For example, there is a National Programme for Biotechnology and Genetic Engineering, where 27 research institutes have been contracted to execute 118 research projects.

The first EU-Egypt Joint Committee meeting under the S&T agreement, held on 21 June 2006 in Brussels, has confirmed such priorities as of mutual interest for future cooperation with the EU under the FP7. An Action Plan with concrete measures for implementation in 2006-2007 has also been adopted.

In addition, a recent agreement has been established between the Ministry of Scientific Research and the Ministry of Foreign Trade and Industry for jointly funding industry related research and development. The initial size of the fund is 100 M LE.

The present level of research and innovation (R&I) activities in Egypt is estimated at 0.5% of GDP per annum, forecast to rise to 1% over the next five years. The national RTD system includes a large number of institutions and universities, but long-term funding for infrastructure, lack of qualified technical staff and the attractiveness of scientific careers at national level pose challenges. Government-funded programmes have been focusing on agriculture, health and, to a lesser extent, on the manufacturing sector. Nevertheless, Egypt is active in international scientific cooperation and is the second largest producer of international scientific publications in Africa.

In the information society, regulatory reform is a prerequisite for encouraging investments in the electronic communications market. In order to develop the sector, Egypt intends to

¹ See Annex 4 "Egypt country environment profile".

introduce a comprehensive regulatory framework and to strengthen the capacity of the regulator RTA. It has established a policy for the modernisation of the communication infrastructure and promoting use of information technology, to be implemented through a number of programmes. Introduction of competition in the fixed-line telephony market is planned for 2007.

Egypt is the one of the few Mediterranean countries to have participated successfully in information science and technology projects under the 6th Framework Programme, with a number of successful proposals including Egyptian organisations. Egypt has already participated in previous research framework programmes. The signing of an agreement on scientific and technical co-operation between the EU and Egypt in June 2005 has put the science and technology dialogue on a stronger institutional footing and is expected to facilitate Egypt's progressive integration into the European Research Area.

4. OVERVIEW OF PAST AND ONGOING EC COOPERATION

EU assistance to Egypt in 2000-2006

The EU is one of the main donors to Egypt. Assistance provided by the European Community alone has totalled over €1 billion since 1995. This includes the MEDA Programme (with its regional and bilateral component) and support under thematic budget lines such as the European Initiative for Democracy and Human Rights (EIDHR). In addition, the European Investment Bank (EIB) has provided financing in Egypt, mainly for energy, transport and environmental projects and for small and medium-sized enterprises. The EIB's operations were underpinned by setting up the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) and opening an EIB regional office in Cairo. An Agreement on Scientific and Technological Cooperation between the EU and Egypt was signed in June 2005 and Egypt has participated in the 5th and the 6th Research Framework Programmes.

Under the EU's **Country Strategy Paper** for Egypt for 2002-2006 assistance focused on three priority areas: a) promoting effective implementation of the Association Agreement, primarily by assisting Egyptian enterprises and institutions to meet the challenge of increasingly competitive internal and external markets; b) supporting the process of economic transition from an inefficient command economy to an efficient and liberalised free market economy able to support sustainable growth and create employment; and c) supporting stability and sustainable and balanced socio-economic development to match economic liberalisation with social and political reform, good governance, the rule of law, constructive involvement of civil society and protection of the environment.

A total of €94 million was committed under the **MEDA II national programme** in 2000-2006. On the basis of the priorities spelled out in the Country Strategy Paper, two National Indicative Programmes (NIP) were adopted in agreement with the Egyptian authorities for the periods 2002-2004 and 2005-2006.

The institutional twinning instrument has been extended to Egypt. As a first step, Egyptian authorities have requested direct cooperation with a counterpart from an EU national

administration in the areas of tourism, maritime transport and postal services. Other projects are under preparation in various fields.

With regard to the thematic programmes, Egypt received support from the cooperation with NGOs budget line (€5.4 million) and from the European Initiative for Human Rights and Democracy (EIDHR: €5 million). Another €5 million supported establishment and operation of the Anna Lindh Foundation for dialogue between cultures based in Alexandria.

MEDA regional cooperation included activities on governance and public administration reform, the environment (pollution in the Mediterranean Sea, SMAP, METAP, Life Third Countries and local water management), justice and home affairs (migration, police and judiciary), political and economic research, South-South economic cooperation, statistics, transport (including global satellite navigation GNSS I and II) and energy (including the Euro-Masher gas market project), maritime safety (SAFEMED I and II), modernisation of higher education under TEMPUS, information society (EUMEDIS), audio-visual, protection of cultural heritage and development of youth exchanges and co-operation in the field of youth in the Euro- Mediterranean region.

Under the 2000-2006 Euro Med II mandate, the EIB has so far provided financing totalling €1 862 million, of which €1 355 million had been disbursed by the end of 2005. Twelve EIB loans on own resources supported projects in the fields of energy (power generation, natural gas storage and processing, and bulk transmission), transport (civil aviation) and the environment (wastewater collection and treatment, plus drainage), while three global loans contributed towards financing the capital investment projects of small and medium-sized enterprises. In addition, the EIB signed two global loan operations on risk capital resources (€50 million) in support of the competitive upgrading of Egyptian enterprises. Technical assistance grants totalling €3.4 million under the FEMIP TA programme went towards supporting EIB operations in the water, energy and financial sectors.

The increase in EIB activities in Egypt in the period 2003-2005 was proportional to the special focus put by FEMIP on private-sector support. Some 54% (€812 million) of the total loan agreements in this period related to operations directly benefiting private-sector projects, while another 24% (€360 million) related to projects helping to create an environment enabling private-sector investment to flourish.

Close cooperation with the EIB, other IFIs and bilaterals active in Egypt is a key factor in successfully developing activities. In particular, European Commission grants and EIB loans are clearly important instruments that can create significant synergies. Possibilities for EC co-financing and parallel financing will be considered at the stage of identifying projects and programmes.

Key lessons learned from the 2002-2006 Egypt Country Strategy

According to the Country Strategy Evaluation published in February 2004, the EU action contributed to preserving economic, social and political stability. Progress has been proportional to the slow pace of economic reform. This changed when the new Government reform agenda was launched in July 2004. Since then the Commission's assistance portfolio has allowed it to engage in a dialogue with the authorities on several key reforms, such as in the financial, customs, trade enhancement, social, health, education or training sectors.

Since 2004 there has been a shift from large-scale technical assistance programmes to budget support. Budgetary support has proved successful in areas where the Government has started ambitious reforms and has been willing to involve donors, such as customs reforms, economic and sustainable water use, textile restructuring and vocational training. Use of budget support operations has also been made possible by the high level of control exercised by the Ministry of Finance over public funds, the Government's consideration for new reforms to improve public finance management and for moving toward higher fiscal discipline.

According to the evaluation, the EU-Egypt Association Agreement has been the most significant factor in **facilitating opening of the economy (priority a)**. EC trade-related measures – the Trade Enhancement Programme (TEP) and the Industrial Modernisation Programme (IMP) - were evaluated as relevant and appropriate. The TEP has contributed, *inter alia*, to significant progress on customs simplification. The IMP offered appropriate responses in principle, although it was felt to have had little impact on issues such as promoting increased foreign direct investment and capital flows from the EU to Egypt. The Potato Brown Rot Disease project successfully helped to reduce outbreaks of the disease, thereby allowing Egypt to export increasing quantities of potatoes to the EU.

Achievement of the objectives on **economic modernisation/transition (objective b)** has been mixed. The main contributory factor is once again the Association Agreement. “Bottom-up” initiatives, such as support to the private sector, have proved valuable, even though their cost effectiveness remains questionable. “Top-down” initiatives critically depending on the Government's reform agenda – mainly those targeting privatisation and banking reform - have produced weak outcomes, especially in cases where the Government's action and commitments have remained limited.

The situation regarding **support for socio-economic development (objective c)** is more positive. The strategy has yielded good results for health reform, improvement of access to education and employment creation. In the absence of reforms, the EU provided substantial assistance from the largest fund – the Social Fund for Development (SFD) – which targeted unemployment, access to credit and non-financial services to SMEs and support to community and social development initiatives.

A number of the **recommendations** made in the evaluation have already been addressed over the period 2004-2006. The EC has moved away from large technical-assistance-based projects towards budget support in cases where the policy environment is conducive to producing the desired outcomes. Other recommendations, such as calling for greater focus of EC assistance on implementation of the Association Agreement in its entire dimension, including its political dimensions, or for targeting the EU's strategic goals of democracy and human rights and supporting social development and policy reform, are reflected in this Country Strategy Paper.

Donor coordination

The Commission's Delegation in Cairo is instrumental in donor coordination. The Delegation has chaired the DAG - Donor Assistance Group (during 2006) and co-chairs several of its thematic subgroups (on health, gender and water/agriculture). The DAG has

endeavoured to link all existing donor assistance to the Government's reform agenda. Improvement of overall donor coordination was acknowledged in the Country Strategy Evaluation. . The Delegation has made concrete steps in the implementation of the Paris Declaration on harmonisation. The Commission coordinated preparations for this 2007-2013 Country Strategy Paper with all relevant donors at an early stage. Current and future priorities of other donors have been factored into this strategy in order to ensure cohesion and complementarity. Co-ordination of assistance between the ECc and Member States is ensured through regular meeting of development Counsellors in Cairo.

USAID, the European Community and its Member States (in particular Germany, Italy, the Netherlands and Spain) and the World Bank are the largest donors to Egypt². They are followed by the Arab funds, IMF, UN agencies (UNDP, WFP), Canada and Japan.

USAID. For 25 years, following the US-brokered Camp David Agreement between Egypt and Israel, the USA has been by far the largest single donor to Egypt with some \$2 billion annually (of which \$1.3 billion is military assistance). Military assistance is to be maintained at current levels, but USAID financial aid to Egypt is to be cut back by 50% by 2009. USAID priorities include education, economic growth, environmental protection and infrastructure. USAID manages programmes on health, democracy and good governance. Activities are planned in areas including criminal justice, family justice, legal education, media and local governance.

The USAID mid-term review for fiscal years 2000-2009 calls for significantly increased efforts on education as well as on democracy and governance, slightly higher funding for health and population issues and slightly lower funding while increasing the focus of the economic growth programme (trade enhancement, customs and financial sector reform). The review recommends ending the environment and workforce development programmes.

World Bank. The World Bank's current loan portfolio in Egypt totals some \$1 billion, distributed as follows: agriculture (mainly rural development and irrigation): 38%, infrastructure (development of Cairo and Sharm el Sheikh airports): 31%, education (early childhood, secondary, higher education and skills development): 18%, health/social protection (health insurance, primary care and public health services): 13%.

Coherence of the policy mix

Relations with Egypt in the context of the Barcelona process are driven by a number of Community policies, which are increasingly building on coherence between their internal and external dimension. This concerns in particular trade, energy, transport, environment, research science and technology, good governance, gender issues and the protection of human rights.

The European Neighbourhood Policy goes beyond existing relationships to offer a deeper political relationship and economic integration. Therefore the EU-Egypt ENP Action Plan, builds a number Community policies and shared values. The coherence of this policy mix is reflected in the EC response strategy in chapter 5.

² See Annex 4 "EU Member States and EC programmes by sector".

5. EC RESPONSE STRATEGY

5.1 General principles of the EU strategic approach and priority objectives

The objective of the EU strategy towards Egypt is to develop a privileged partnership through deeper political cooperation and economic integration, supported by the appropriate package of financial assistance and other ENP instruments. The key strategic importance of Egypt lies in its plans for political, social and economic reform, in its potential for deeper economic relations with the EU and in its willingness to cooperate with the EU on promoting peace and security in the region.

The EU's strategic approach will be developed in the framework of the ENP and through implementation of the joint ENP Action Plan. The strategic response must be both linked to Egypt's priorities and fully consistent with the range of relevant EU policies. This consistency is ensured by the ENP policy framework. The Action Plan presents a single framework for the EU's relations with Egypt. The results of the dialogue between the EU and Egypt on implementation of the ENP Action Plan, through the subcommittees and with the involvement of the different Commission departments, will guide selection of the priorities.

The short-term agenda of the EU-Egypt Action Plan is ambitious. Where Egypt faces constraints and capacity limitations to implement the Plan, the ENP provides a number of instruments and incentives to make it easier for it to carry through its Action Plan commitments. These will include opening up trade, a stake in the internal market, and targeted technical and financial assistance. As appropriate, Egypt will receive support for participation in Community programmes, agencies and networks, insofar as these are open to the country. To ensure maximum effectiveness, programming priorities will be aligned with the priority objectives of the ENP Action Plan and will be combined in synergy with other ENP incentives. One underlying feature of the European Neighbourhood Policy is its individual tailor-made nature, in which ENP partners are left free to decide the pace and intensity of the relationship. Those seeking to move rapidly and intensely on their reform programmes will benefit from a wider range of support and assistance.

In the light of progress towards the objectives of the Action Plan and of the overall development of EU-Egypt relations, consideration will be given to the possibility of a new contractual relationship.

The ENP offers a framework to support the modernisation process in Egypt. In this context, the EU will focus on a limited number of specific priorities, selected on the basis of the following principles: i) strategic interest to the EU; ii) consistency with the National Development Plan; iii) linkage with the conclusions of the subcommittees on implementation of the Action Plan; and iv) strategic approach to donor coordination, harmonisation and alignment, to focus on carefully selected key areas where the EU considers that it has a comparative advantage and where there are distinct possibilities to complement the work of other donors, in particular of the EU Member States and the EIB.

Political reform in Egypt is not only crucial for development of the domestic process of democratisation but also will have significant repercussions in the region. Egypt is well-placed to influence other countries in the region. The authors of the Arab Human Development Reports assessed the democracy gap in the Arab region as comparatively high in global terms. In order to bridge this gap, it is necessary to create circumstances which allow an increasing share of the population to be involved in the democratisation process, including decentralisation of power to local level.

The democratisation process will contribute to strengthening the economic development of the country. Increasingly, the private sector should be enabled to play the active role demanded in a modern economy. At the same time, the State should limit its intervention to the regulatory aspects of the economy and to cushioning the negative effects of the reforms through better targeting of subsidies on the eligible groups of the population, using the budgetary resources freed to upgrade the social safety net and removing economic distortion, including by subsidising price regulation through targeted social programmes.

Opening the Egyptian economy to the world by increasing the number of free trade agreements concluded would eventually enhance its competitiveness, attract investment and generate employment. This will be possible only if accompanied by structural reforms in the fields of education, finance and the regulatory framework, promotion of innovation and research coupled with investment in infrastructure.

Taking into account the mix of political, economic and social considerations, the three key objectives for the EU's strategy towards Egypt over the period 2007-2013 are:

1. supporting Egypt's reforms in the areas of democracy, human rights, good governance and justice;
2. developing the competitiveness and productivity of the Egyptian economy;
3. ensuring the sustainability of the development process with effective social, economic and environmental policies and better management of natural resources.

The limited capacity of Egypt's public institutions and civil society are a consideration in effective implementation of Egypt's political, economic and social reform agenda. Strengthening Egyptian institutions, agencies and organisations will therefore be an overarching objective to support attainment of the three key strategic objectives listed above.

The EU-Egypt Action Plan identifies a number of political, social and economic reforms with the purpose of adjusting the regulatory, legislative and administrative frameworks. The EC will deploy the relevant instruments at its disposal to cooperate on capacity-building, including use of twinning arrangements, and will provide financial assistance to strengthen human and social capital, support legislative reform and help strategy- and policy-making and implementation. This support will be targeted on the priorities identified by the joint subcommittees responsible for overseeing implementation of the Action Plan.

Interest rate subsidies and other ways of blending grants and loans can leverage investments by international financial institutions in the fields of environment, energy and transport. Whenever interest rate subsidies are considered, their relevance shall be assessed on a case-by-case basis and care should be taken to avoid significant market distortions. As regards environment, relevant sectors include water management, waste management and industrial pollution. For energy, possible areas include renewable energy resources and energy

efficiency. Energy infrastructure/network investments should in principle be commercial operations given their financial return. In exceptional circumstances, though, where specific EU interests are involved (notably, energy security of supply) and it appears difficult to get a project started, targeted interest rate subsidies or other ways of combining grants and loans might also be considered for particular investment projects. Regarding transport, interest rate subsidies or other blending schemes would focus on catalysing funds for critical infrastructures of strategic importance, such as cross-border measures on the priority axes or the missing links necessary for their completion.

The level of support provided by the EU will be subject to agreement on a comprehensive Action Plan containing commitments on political, social and economic reforms.

5.2 Priority analysis

The ENP Action Plan is the policy framework within which EU financial assistance is made available alongside a range of ENP incentives and opportunities in the form of integration with Community markets, programmes and agencies, based on mutual interest. For each of the key priorities identified, the full range of appropriate measures – both financial and non-financial – is to be made available. The three key strategic objectives are described in greater detail below:

Strategic objective 1: supporting Egypt's reforms in the areas of democracy, human rights, good governance and justice

The Egyptian authorities have identified priorities for their political reforms for the years ahead. In the field of human rights, establishment of the National Council for Human Rights has created a domestic institution designed as a potential vehicle for proposing changes in the legal and administrative context. With Egypt willing to develop its relations with the EU in all areas of cooperation, the EU's approach to supporting this sector is based on the recognition that it is Egypt's own wish to pursue an internal political reform agenda, and that the scale of support will be subject to the extent to which reforms are carried through.

The EU will target financial assistance on Egypt's priorities for political reform, in particular enhancement of the effectiveness of institutions entrusted with strengthening democracy and the rule of law, including legislative institutions. Assistance will be made available for reviewing and supporting the electoral system, for capacity-building in civil society and for supporting the process of decentralisation and reform of the local administration, including local elections. Civil society will play an enabling and awareness-raising role in these areas. Modernisation and development of public services delivery, including improvement of good governance and measures to combat corruption and encourage transparency, especially of public finance, are major priorities for Egypt.

Regarding the independence and effectiveness of the judiciary, cooperation will aim at strengthening an independent judicial institutional framework and will include, among others, activities to strengthen the capacity and efficiency of the judiciary (through training of judges and prosecutors, improvements to court procedures, handling of case files, etc.) as well as supporting policies and programmes aiming at improving places of detention and prison conditions.

To promote and protect human rights, EU assistance will be targeted at strengthening the culture of respect for human rights and fundamental freedoms, and the capacity and effectiveness of all competent institutions, including the security apparatus and the police, and at supporting formulation of a national human rights strategy by the authorities. Cooperation will be provided to support protection of women's and children's rights and to enhance the freedom of expression and independence of the media. Specific attention will be paid to enforcement of protocols and international conventions related to human rights to which Egypt is party (on political and civil rights, economic, social and cultural rights, women's rights, children's rights, torture, racial discrimination, the death penalty and the status of refugees).

Cooperation between the EU and Egypt might also cover aspects of foreign and security policy such as conflict prevention and crisis management and development of a strategy on disaster management and reduction.

In the field of justice, freedom and security, Egypt and the EU have shared interests in cooperation in areas such as terrorism, organised crime, money laundering, illegal migration and trafficking of narcotics and human beings. Particular attention will be paid to implementation of the Code of Conduct on Terrorism adopted at the Barcelona Summit in November 2005 and to implementation of UN conventions on terrorism.

Cooperation would take the form of a package of measures such as capacity-building and development of human resources, technological capabilities and organisational capacity in the framework of a comprehensive approach aiming at promoting reforms.

In the field of migration the EU will seek to cooperate with Egypt in areas such as family reunification, the status of third-country nationals who are long-term residents and admission of students and of third-country researchers and the management of migratory flows.

Strategic objective 2: developing the competitiveness and productivity of the Egyptian economy

Opening and liberalising the economy to stimulate growth and employment is the key challenge facing Egypt in the years ahead and a specific goal in the short to medium term for the Egyptian Government. Egypt faces the difficult task of determining how to balance creation of jobs for new entrants to the labour market, estimated at 600 000 every year, with increased productivity and production of goods and services through enhanced economic activity by the private sector. The burden of absorbing an expanding unskilled labour force will fall on the shoulders of the formal and informal economies. Strategic objective 2 is intended to focus on the economic dimension of this key issue.

The objective of cooperation with the EU will be to develop the competitiveness and productivity of the private sector. Egypt will continue to implement the Euro-Mediterranean Charter for Enterprises as a tool to boost enterprise competitiveness. Of the ten areas included in the Charter, Egypt has selected the following four priorities: simplifying procedures for enterprises, improving skills, facilitating access to finance and promoting innovation. The opening of the 7th Research Framework Programme and of the Competitiveness and Innovation programme to the ENP partners will be an important asset.

In the light of the above and of the support provided to the trade sector by other donors, the EU will focus on areas with a direct impact on EU-Egypt trade, such as reducing administrative red tape and overregulation of trade and services, capitalising on innovation, scientific research and high-tech development, developing IT niche sectors, enhancing quality and export competitiveness (including export potential on SPS issues), and trade facilitation and customs reform. In parallel, EU assistance will also cover modernisation of the statistical system, which is crucial to the reform processes in Egypt. Cooperation should aim at strengthening corporate governance through best practice in company law, accounting and auditing, including legislation.

The importance of electronic communications has increased with the development of the knowledge-based society. In the field of information society, strengthening the administrative capacity for the elaboration of a sector strategy and of regulations converging towards the EU policy and regulatory framework should be supported. Assistance will focus on the implementation of the national strategy with a view to supporting a competitive market and the development of advanced infrastructures and online services.

In the past the EC has supported agriculture in Egypt, a labour-intensive sector contributing substantially to the country's GDP. Further action could be envisaged in the context of the commitments given by the EC on sustainable rural development in the Euro-Med Rabat Roadmap.

Given the large share of the services sector in both the EU's and Egypt's economy, liberalisation of trade in services and of establishment with Egypt is a strategic priority for the EU. Negotiations have started with Egypt on a free trade agreement on services and establishment. Liberalisation of the services sector will provide Egypt with access to the EU services market which is the largest in the world. Egypt can benefit from the technological know-how of EU services and investment from the establishment of EU service providers. Finally, this will make it possible to lower the costs of services for Egyptian businesses. Support will be provided to selected services addressing the different regulatory bodies along with reform of the legislative framework. Support for reforms in the banking sector and improved supervision of financial services in general is particularly important. Improving corporate governance, enforcement of bankruptcy legislation and resolution of commercial disputes in courts are other important challenges in order to stimulate domestic and foreign investment.

One central component in the ENP is the medium- to long-term objective of gradually providing Egypt with a stake in the internal market. The main priority in this field will be to develop a uniform regulatory approach to allow liberalisation of trade in industrial goods to create a Euro-Egypt market for such goods. This will help diversify Egypt's exports. In the harmonised areas, the possible future negotiations on an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) will concern a number of jointly selected areas. Implementation of the ACAAs will require the partner country to align on and implement the relevant EU legislation and quality infrastructure for selected sectors.

Other priorities on the internal market can be considered with reference to legislative review and administrative reinforcement in the fields of anti-trust and state aid as a precondition for

the stake in the internal market, intellectual property, public procurement, and public internal financial control, as well as measures to implement the Pan-Euro-Med Rules of Origin. Consideration will be given to the steps needed to improve the business environment by ensuring transparency and predictability. To this end, adoption of a code of corporate governance and of modern company law, accounting and auditing legislation will be encouraged.

Finally, to facilitate trade and give Egypt a real possibility to have a stake in the internal market in industrial goods, it is important to facilitate connectivity between Egypt and its neighbours and with the EU. EU financial assistance will be considered to support the regulatory and legislative aspects of the transport sector and open up relevant Community programmes to complete the Euro-Neighbourhood networks. A trade needs assessment (TNA) could be launched in due course to identify the needs for assistance in the field of trade and contribute to identifying a relevant programme.

Support will be considered for strengthening Egypt's policy measures to improve the budgetary situation. A sound macroeconomic framework is a shared strategic interest of the EU and Egypt and contributes to a positive business environment. Measures will be considered to support sound public financial management and ensure the financial sustainability of the reform agenda.

Strategic objective 3: ensuring the sustainability of the development process with effective social, economic and environmental policies and better management of natural resources

In line with the prevailing socio-economic conditions and Egypt's own policy priorities, the EU's response will focus on reducing poverty, on improving standards of living, promoting decent work and access to essential services. The assistance planned will support and encourage Egypt's social reform processes and "pro-poor" policies for the benefit of the population at large, and particularly the most vulnerable.

Development based on economic growth needs to be accompanied by other measures, such as social, educational and environmental measures, if it is to become sustainable. The target set by the Presidential programme is ambitious, namely to create 4.5 million new sustainable jobs over the next six years. The President's objective is to double the number of families receiving social security benefits from 650 000 to 1.3 million. Further development and successful implementation of Egypt's education and employment strategies are essential to ensure a technologically skilled and adaptable workforce and a better participation of women in the economic and social progress. EU assistance will also focus on supporting reforms improving the quality and efficiency of the public education systems, addressing quality assurance, curriculum reform and accreditation and enhancing TVET skills and the certification system, taking into account the gender perspective. Links between Egyptian universities and those in EU countries will be encouraged. Egypt should be encouraged to meet the education targets set in the 5-year work programme adopted at the Barcelona Summit in November 2005 and to develop strategies for long-term learning. Due attention should be paid to those not covered by the formal education system, in particular those working in the informal sector, and illiterate people.

Addressing the question of unemployment, under-employment and of a better match the workforce skills with the market needs are at the centre of the strategy to reduce poverty,

promote economic growth and prevent radicalisation. The reform of the labour market will also be boosted by implementation of the new labour code and of the ILO conventions, effective trade unions and social dialogue and development of a labour market information system. The EU is willing to consider support in these fields.

This assistance can be stepped up as the ENP framework offers the possibility to develop people-to-people action and exchanges. These include exchanges between social partners and stakeholder, greater participation in research-related activities (i.e. under the EU's 7th Framework Programme and in particular the Marie Curie actions with the specific programme 'People' (training and mobility for researchers), the Tempus and Youth in Action Programmes as well as increased exchange opportunities for Egyptian nationals and Erasmus Mundus.. The possibilities for enhanced co-operation in the field of culture will be examined.

The Government of Egypt has undertaken to address the overall reform of health system financing; such a move will focus on creating a sound National Health Insurance System, with financially sustainable universal coverage of healthcare and risks on a balanced and equitable basis by 2010, in line with the Presidential programme.

Better management of human resources should be backed up by appropriate development of natural resources. The Egyptian Government intends to prepare a national strategy on sustainable development and to strengthen its administrative capacity to handle it. It gave a commitment to this in the ENP Action Plan.

In the field of transport, strengthening administrative capacity for formulating sector strategies and policies converging towards the relevant EU policies and regulations is a general priority. The EU has an interest in further developing cooperation on policies designed to ensure that transport systems are efficient, interoperable, safe and secure. The commitments taken in the Euro-Mediterranean context to extend the trans-European networks to the neighbouring countries will have to be taken into account.

Support is envisaged for enhancing environmental governance, including legislative and administrative reform, taking into account the National Environment Action Plan for 2002-2017 of the Government of Egypt and the Horizon 2020 initiative to clean up the Mediterranean Sea by 2020. Successful achievement of this goal will require a combination of regional and national action. To this end, support for regulatory convergence and institutional capacity-building can be envisaged. Water is one area of key strategic concern. EU assistance will focus on legal, regulatory and institutional adjustments to the existing framework plus, possibly, in limited cases, on preparing projects for upgrading water infrastructures, taking into account the Nile basin initiative. Further priority areas include policy and practices on waste management, nature protection and desertification.

In the case of energy, EU assistance could possibly focus on the legislative and regulatory aspects with a view to developing a sound and sustainable energy policy in Egypt. Due account will have to be taken of the trans-European network energy guidelines for gas pipelines, given the involvement of Egypt in the setting up of the East Mediterranean gas ring.

5.3 Complementarity and consistency with the Regional Strategy Paper, the ENPI and other instruments

The *regional ENPI programme for the South neighbourhood* will contribute to achieving objectives outlined in this strategy, since activities within regional or sub-regional programmes provide added value or complement bilateral operations.

On political development issues, bilateral assistance can support implementation of political reforms, while regional activities will include support for establishing regional networks and platforms of civil society organisations (to supplement the response by platforms at national level) and media networks. Dialogue between cultures can be better approached at regional level, for example in the context of the Anna Lindh Foundation.

Cooperation on justice and security issues is a shared priority for the EU and a number of South neighbourhood partners. Regional activities will include judicial cooperation on cross-border issues, networks of organised crime and trafficking of human beings and migration, plus exchanges of best practices. This will add to action undertaken at bilateral level with Egypt, which will focus on strengthening institutions and implementing national strategies.

Regional action on transport and energy will concentrate on trans-national activities (South-South and North-South connections), while bilateral assistance will target regulatory reform and national strategy. Regional cooperation on the environment will include collaboration with the European Environment Agency, with particular focus on the Horizon 2020 initiative. Sub-regional cooperation will also form part of the EU's regional strategy.

Alongside the bilateral and regional envelope, Egypt will also benefit from the ENPI Inter-regional Programme and the ENPI-CBC Mediterranean Sea Basin Programme. The *ENPI-Inter-regional Programme* will include activities which will be implemented in the same way for all the neighbouring countries. This programme will, in particular, finance TEMPUS and the new Scholarship Programme, as well as TAIEX activities. The *ENPI-CBC Mediterranean Sea Basin Programme* will allow Egypt's coastal regions to cooperate with coastal regions in EU Member States through joint projects. In addition, Egypt may also benefit from the *thematic programmes* established under the Development Cooperation Instrument, in particular those on "migration and asylum", "investing in people" and on "environment and sustainable management of natural resources" which are relevant to Egypt and could usefully reinforce bilateral cooperation. The new *Instrument for Human Rights and Democracy* (ex-EIDHR) will also be available to support thematic activities in that area.

6. NATIONAL INDICATIVE PROGRAMME FOR 2007-2010

A variety of programmes and operations will be brought together to pursue the strategic objectives listed in section 5.2 and will be covered by the EC financial assistance from the new ENPI during the period 2007-2013.

The bulk of ENPI financial assistance to Egypt falls under this National Indicative Programme (NIP) which is designed to support the reform processes in Egypt. Interest-rate subsidies can leverage investment by international financing institutions in the fields of the environment, energy and transport, as explained in the Country Strategy Paper. Such support will form part of this NIP. The global indicative allocation to Egypt for the 2007-2010 exercise is €58 million.

The overall NIP allocation may be increased by allocations from the “Governance Facility” which will provide additional support for partners wishing to progress further with implementing Action Plans and by additional support from the Neighborhood Investment Fund.

The twinning instrument will be made available to support the three priorities identified in the National Indicative Programme.

The order of priorities set out in the National Indicative Programme follows the structure of the EU-Egypt Action Plan.

6.1. Priority 1: Supporting Egypt’s reforms in the areas of democracy, human rights and justice

Cooperation in the area of political reform will be developed to support Egypt’s efforts to strengthen democracy and human rights, activities to enhance cooperation in the field of justice, to promote good governance and fight corruption.

1. Support for political development, decentralisation and promotion of good governance

a) Justification and objectives

The 2005 elections marked a step forward in the democratisation process in Egypt. For the first time, the elections were administered by electoral commissions under full judicial supervision and observed by local civil society. At the same time the process revealed some shortcomings which brought to light a need for improvements in public participation, the accuracy of the voters’ lists, the legislative framework which regulates the electoral process and some administrative practices. Given the crucial importance of an appropriate electoral framework for progress with the democratisation process in Egypt, EU support will address issues surrounding electoral reforms and practice, drawing on the experience of other partner countries and the Member States.

The Government of Egypt believes that decentralisation deepens citizens’ sense of belonging as it allows effective participation in the decision-making process. Decentralisation enhances democratic practices and improves the management and standards of public services. Adoption of the new decentralisation law is among the first priorities in the Government’s political reform programme.

In Egypt, as in other Mediterranean countries, the quality of governance can be improved by increasing public accountability, information (transparency) and appeal procedures (contestability) and set up adequate mechanisms to fight corruption.

b) Programme description

The programme will have three components, the first dealing with the electoral process, the second with decentralisation reform and the third with good governance.

Regarding the electoral process, as recommended by the Egyptian National Council for Human Rights, this programme will support the Government in reforming the electoral system by increasing public participation in political life, revising the voters' list and reviewing the legislative and administrative frameworks.

In preparation for, and following approval of, the law on decentralisation, the programme will also support the Government's efforts to modernise the local administration system and to develop the powers of the local councils and their capacity for planning, managing and financing local development.

The third component of the programme will support the Government with further modernisation and development of public services rendered to citizens, promoting accountability, transparency and contestability, including improvement of good governance and measures to combat corruption.

The support will include providing technical assistance in order to benefit from best practice and lessons learned in the EU Member States.

c) Expected results

- Voter registration and improved capacity-building;
- Legal framework for elections strengthened;
- Acceleration of the decentralisation process;
- Legal and administrative framework for local government enhanced;
- Anti-corruption policies and practices revised.

d) Performance indicators

- Higher number of registered voters and increased participation in future elections;
- Greater participation by citizens in local decision-making processes;
- Reduction of the discrepancies in social and economic indicators between the different governorates;
- Improvement in provision of services at local level;
- Improvement in governance, management of public services and the administrative framework.

e) Indicative budget

The total budget planned is €3 million.

2. Promotion and protection of human rights and involvement of civil society in protecting the environment

a) Justification and objectives

The Government of Egypt has expressed determination and commitment to strengthen citizens' rights, widen women's participation and extend good governance practices. The Egyptian Government has taken measures aiming at further consolidating democracy and human rights. Establishment of the National Council for Human Rights (NCHR), the

National Council of Women (NCW), the National Council for Childhood and Motherhood and the Family Courts are signs of progressive development together with the important roles played by the ombudsman's offices at the NCW and, soon, at the NCHR.

This programme will continue and deepen the cooperation started in the "Human rights, civil society and good governance" project, the objectives of which include support for developing and building up the capacity of institutions and NGOs and for implementing policies and strategies to promote human rights in line with the relevant international instruments. The programme should also strengthen the capacity of Egyptian NGOs to promote and protect the environment.

b) Programme description

In line with the dialogue held on human rights and good governance, this programme will have four components: i) promotion and protection of human rights; ii) protection of women's and children's rights; iii) strengthening the role of civil society; and iv) support for freedom of expression and freedom of the media.

– Promotion and protection of human rights

The programme will support the efforts by the Egyptian Government to strengthen the culture of respect for human rights and fundamental freedoms in Egypt. Particular attention will be paid to strengthening the capacity and effectiveness of the competent public institutions and councils, to reviewing the national legislation and to formulating a human rights strategy.

– Protection of women's and children's rights

The programme will support the Government with establishing a gender mainstreaming strategy and enhancing women's participation in political, economic and social life and also increasing their role in the political decision-making process. Specific activities will be planned to fight discrimination and gender-based violence and to contribute to eradicating the practice of female genital mutilation, including appropriate legislation and public awareness-raising.

– Strengthening the role of civil society and involving civil society in protecting the environment

The programme will support the Government in further improving the legal and administrative framework within which civil society operates and developing the dialogue between civil society, public authorities and Egyptian NGOs with a view to contributing more effectively to the democratic, political, economic and social process. Special attention will be paid to strengthening the role of civil society organisations involved in protection of the environment.

– Support for improvements in freedom of association and of expression and pluralism of the media

The programme will support Egypt's effort on promoting the right of assembly and association and on asserting freedom of expression and the independence of the media. Initiatives could include a review of the legal and administrative frameworks, including in the information sector, plus capacity-building and facilitation of use of the media by civil society groups active in raising awareness.

c) Expected results

- Enhanced protection of human rights, in particular of women's rights;
- Formulation of a human rights strategy;
- Implementation of a framework for dialogue with civil society;
- Improved framework for freedom of expression and operation of the media.

d) Performance indicators

- Consolidation of the strategy for protection of human rights;
- Increased capacity of civil society organisations to contribute to the political, social, economic and environmental debate;
- Enhancement of the position of women on the labour market and of their participation in the decision-making process.

e) Indicative budget

The total budget planned is €7 million.

3. Support for modernisation of administration of justice and enhancement of security

a) Justification and objectives

In the field of justice, the ENP Action Plan includes measures to consolidate the independence and effectiveness of administration of justice and judicial cooperation on criminal and civil matters. The Action Plan also aims at reinforcing cooperation between Egypt and the EU on management of migration flows, both legal and illegal. With regard to security, the Action Plan gives priority to cooperation on foreign and security policy, combating terrorism, organised crime and non-proliferation of weapons of mass destruction.

EU support will be directed towards cooperation with the Egyptian authorities in the abovementioned areas, particularly to support institution-building and adaptation of the relevant regulatory frameworks.

b) Programme description

Assistance under this programme will aim at supporting Egypt's efforts on modernising administration of justice and strengthening the capacity of law enforcement bodies. EU

assistance will be targeted on supporting the Egyptian authorities with addressing the abovementioned priorities of the Action Plan. The programme will select a number of areas considered short-term priorities for Egypt. These could include combating organised crime, money laundering, terrorism and the management of migration flows. Support for communities and NGOs committed to this objective and for improving conditions in prisons and places of detention will also be considered under this programme

c) Expected results

- Improvement of capacity and efficiency for administration of justice;
- Strengthened capacity to manage legal migration and to deal with illegal immigration flows and human trafficking;
- Enhancement of national efforts to fight trafficking and smuggling of narcotics and drug addiction;
- Improvement of measures to tackle the financing of terrorism.

d) Performance indicators

- Justice administration personnel trained and capacity strengthened;
- Increasing access of citizens to justice;
- Decrease of court backlogs;
- Dialogue with Egypt on various migration-related issues established.

e) Indicative budget

A budget of €10 million is planned.

6.2. Priority 2: Developing the competitiveness and productivity of the Egyptian economy

The overall objective is to develop the competitiveness and productivity of the private sector in a business-friendly institutional and regulatory environment. This will increase investment, production and trade and help stimulate growth and job creation in Egypt. In particular, support will be given for a “connectivity effort” aimed at reconnecting Egypt to the global marketplace by overcoming regulatory and administrative constraints and developing competitive export capacity.

1. Support for implementation of the Action Plan Programme (SAPP)

a) Justification and objectives

Two programmes to support implementation of the Association Agreement are currently being implemented in Egypt and provide ad hoc support in a number of areas, notably through twinning operations. Their flexibility and demand-driven nature make this type of programme a strategic instrument to support reforms and implementation of the Association Agreement and to reinforce the administrative capacity of Egyptian institutions. This support programme for implementation of the Action Plan aims at building up capacity and strengthening institutions to facilitate implementation of the reforms and commitments underpinning the different chapters of the Action Plan. It will focus on priority fields of action to be defined through the regular dialogue between Egypt and the EC, particularly in the different subcommittees and within the framework of the Euro-Mediterranean Charter for Enterprises and could include initiatives on all the fields and priorities identified in the Action Plan.

b) Programme description

Like its predecessors, this programme will be flexible and demand-driven. Priorities may be agreed to address obstacles and constraints to implementing the reforms under the different chapters of the Action Plan. Depending on the needs identified and the scale of the reforms involved, assistance will mainly be channelled through technical assistance and twinning arrangements on the one hand or budgetary support on the other. As an indication and with particular regard to economic reform, the following activities can be envisaged:

Trade facilitation and customs reform

Building on ongoing support, SAPP will continue to provide assistance to modernise customs administration and simplify customs legislation and procedures, in line with international standards and rules. Support will aim at extending the results of Egypt's modernisation efforts to the whole customs territory and all customs posts in Egypt. This will mainly concern Egyptian pilot projects on model tax and customs centres and one-stop-shop procedures at ports.

Assistance will target specific areas of the regulatory, administrative and enforcement activities of the Egyptian customs authorities, such as origin, counterfeiting and valuation.

Upgrading economic legislation and the business environment

In line with the reform efforts underpinning the Action Plan and the commitments in the areas of trade-related, market and regulatory reform, a flexible assistance facility will support efforts to modernise and upgrade legislation, regulatory enforcement and approximation, institution- and capacity-building in areas such as technical legislation, standards and conformity assessment, competition, access to information from the EU, innovation, IPR, taxation and consumer policy, regulatory convergence on services and investment legislation, financial services supervision and other related areas.

Some of the abovementioned assistance is geared towards accompanying liberalisation or negotiation processes, such as in the fields of services and establishment, or upgrading the quality system. The importance of consultation of socio-economic partners on policymaking and implementation of reforms is recognised by the Egyptian authorities. Business

associations, trade unions, employers, employees and other players in civil society must therefore be prepared to participate fully in this process.

Enhancing the agricultural sector

With agriculture accounting for nearly 16% of GDP and 15% of exports and a key sector in terms of employment with 34% of the active labour force, SAPP assistance should concentrate on developing the organisational and production capacity of the agricultural sector with an eye to its export potential. First, assistance should support rural development and quality production, including on a sectoral basis. This will include improvements in administrative capacity at regional and local level and initiatives to stimulate the development and diversification of local authorities in rural areas. Particular attention should be paid to the earnings, skills and assets of the important proportion of women working in the agriculture sector. Support will be given to improve the quality of production (legislative framework and training programmes), to sustain given sectors through participatory involvement of the main stakeholders and to cushion adjustments necessitated by the increased liberalisation of agricultural trade in the Mediterranean region.

Second, Egypt's sanitary and phytosanitary system needs upgrading and modernising in line with international practice. Flexible provision of capacity-building and technical assistance could help with upgrading the legislative, infrastructure and inspection set-up for both agriculture and fisheries to meet EU requirements. This will contribute to modernising the Egyptian SPS system - also for the benefit of Egyptian citizens - in line with international safety and marketing standards. This support could specifically include continuous assistance on potato brown rot. In addition, more targeted assistance could be directed towards capacity-building on procedures, laboratory accreditation, and regulatory and institutional upgrading, particularly to develop a food safety policy in line with international best practice. Finally, EU support will include action to tackle avian flu.

Support for transport, energy, science and technology

SAPP could include support in the fields of transport (railway restructuring, maritime safety and security, aviation market liberalisation and its safety and security, Integrated Safety Action Plan and road transport), energy (development of sector strategy, preparation of legislation and administrative capacity-building, including development of regulatory bodies and regulatory convergence with Mediterranean partners and the EU), promotion of energy efficiency and renewable energy sources, the environment (legislative reform, administrative capacity-building at central and local levels and infrastructure projects) and the information society (strengthening of regulatory bodies and capacity-building of public bodies). Building on the Scientific and Technological Agreement between Egypt and the EU, SAPP could continue supporting a number of activities to facilitate integration of the Egyptian research community into the European Research Area.

Support for modernisation of the statistical system

The MEDSTAT regional programme has highlighted the need to take the issue of modernisation of the statistical system a step forward through a more substantial bilateral programme. Greater reliability of statistics in Egypt and harmonisation with European and international standards such as the provision of gender-disaggregated data, will be

instrumental to accompanying the reform processes mapped out in the Action Plan and monitoring the results.

The benefits of support for modernisation of the statistical system in Egypt will be cross-cutting and have both an internal and external dimension. Assistance will aim at strengthening both the institutional and quality framework and the statistical infrastructure and at facilitating data collection and dissemination.

c) Expected results

- Progress on implementation of the Action Plan priorities;
- Strengthened capacity of the different Egyptian institutions to create and enforce a legislative environment supporting socio-economic development;
- Modernisation and approximation of Egypt's legislative and regulatory framework, notably through transfer of EU know-how;
- Development of Egyptian capacity to draw up and implement strategies and national policies;
- Further liberalisation of trade in agriculture and liberalisation of trade in services between the EU and Egypt;
- Modernisation of the sanitary and phytosanitary sectors;
- Further harmonisation of Egypt's statistical system with international standards.

d) Performance indicators

- Legislation and regulatory framework envisaged in, or related to, the priorities of the Action Plan adopted and applied in a variety of sectors;
- Administrative bodies and institutions to implement and monitor the legislation and regulations strengthened;
- Greater reliability of Egypt's statistical system and harmonisation with international standards;
- Increased trade in agriculture and services between the EU and Egypt;
- Increased food safety for Egyptian and European consumers.

e) Indicative budget

The budget planned for SAPP is €220 million, of which, as an indication:

- €70 million for technical assistance and
- €150 million for targeted support to sector reforms.

6.3. Priority 3: Ensuring the sustainability of the development process

Investment in people is another key priority which provides support in two of the main sectors selected for reform by the Egyptian Government, namely education and health. It will ensure continuity with current programmes and sustainability of results. In addition, support for sustainable development of Egypt will be made available to key sectors such as transport, energy and the environment through interest-rate subsidies for infrastructure investment from the European Investment Bank.

1. Support for reform of education

a) Justification and objectives

Following the 2005 elections, in order to create and uphold social stability in Egypt, the Government has put social reform at the top of the political agenda. Currently public spending on education accounts for almost 6% of GDP and almost 20% of total public spending, taking fiscal expenditure on social services (including education) above the average for similar income countries. Although enrolment rates and literacy have increased, the level of drop-outs is worrying; the quality of education is generally perceived as low and not geared to a modern, competitive society. Further quantitative and qualitative investment is crucial in order to achieve the goal of universal primary education by 2015. Universities have some way to go to adapt their curricula to the needs of the labour market. The Government efforts to improve the skills of the labour market should be sustained. This programme should address the case of those not covered by the formal education system, such as illiterate people and those working the informal sector.

At the end of 2006 the €100 million Education Enhancement Programme will be concluded. New reform plans are being finalised by the Ministry of Education.

b) Programme description

The plan is to support the Government of Egypt's reform programme for primary, secondary and tertiary education. Account will be taken of the recommendations of the Public Expenditure Review on education, with the ultimate objective of reinforcing access to and the quality of education.

c) Expected results and d) Performance indicators

- Strengthening the administrative capacity of the Ministry of Education to conduct its reform plan;
- Upgrading the level of primary, secondary and tertiary education;
- Improving the links between education and the qualifications needed on the labour market;
- Improving access to education and to the labour market, particularly for women and the most vulnerable sections of the population;
- Improve the rates of literacy
- Upgrading the network of universities in Egypt and improving their management.

Further expected results and performance indicators will need to be added after analysis of the ongoing EC projects under the Education Enhancement Programme (€100 million).

e) Indicative budget

The indicative budget for this programme is €120 million.

2. Public health

a) Justification and objectives

Since 1998 the EC has provided support totalling €10 million for the Government's Health Sector Reform Programme (HSRP). The HSRP was implemented in five of Egypt's 27 Governorates as a pioneer sector reform based on the Family Health Model (FHM) and financed from the Family Health Fund (FHF). The project ends in December 2006.

In line with the NIP for 2005-2006, the EC is preparing budgetary support totalling €8 million, building on the HSRP and in line with the Ministry of Health's priorities and sector reform plan.

b) Programme description

The budgetary support of €80 million to be agreed with the authorities in 2006 is intended to accompany the Ministry's sectoral reforms in the next three years. However, EC assistance should be continued since health reforms will be carried out by means of a long-term programme. Assuming the Government continues the current level of commitment, EU support to the health sector founded on the principles of human equity and social stability will be pursued. In addition, EU support could include the fight against communicable and non-communicable diseases, in particular through facilitating the implementation of international treaties in the area of public health.

c) Expected results and d) Performance indicators

The ultimate goal is to move from a pluralistic segmented system to a well managed healthcare system that at least ensures universal coverage of the population, based on the principles of equity, efficiency, quality, affordability, sustainability and client satisfaction and allowing all sectors of the population access to healthcare based on need and not on ability to pay.

Expected results and performance indicators will need to be added after analysis of the ongoing EC projects under the Health Sector Reform Programme (€10 million) and the budgetary support operation (€8 million).

e) Indicative budget

The indicative budget for this programme is €120 million.

3. Support for investment in the transport, energy and environment sectors

a) Justification and objectives

Investment in the three key sectors of transport, energy and the environment has been singled out by the Egyptian Government as a high priority. Likewise, for the period beyond 2007 the EIB will concentrate its contributions on these three themes and on development of the private sector (SMEs). To leverage investment in these areas, the NIP will support subsidised loans from the EIB and other qualified financial intermediaries. Combination of the large volume of loans which could be attracted in this way with the support for the sectoral reforms included in the NIP will provide a comprehensive package to support investment in infrastructure and sustainable development of the different sectors of Egypt's economy and society. The priorities identified during the Euro-Mediterranean Marrakech Ministerial conference with respect to transport infrastructure and interconnection to the trans-European and regional transport networks.

b) Programme description

Support under this programme will take the form of interest-rate subsidies. The amounts and financing procedures will be based on detailed prior assessment of each project carried out, in line with the procedures of EIB and of the qualified the financial intermediaries concerned. In accordance with Egypt's priorities, and subject to agreement with the EIB and financial institutions concerned, projects could include restructuring of the railways and development of renewable energy.

c) Expected results

- Higher standards and performance of transport and improved infrastructure;
- Improved integration and inter-connection with TENs and Euro-Mediterranean regional networks.
- Increased contribution of renewable energies in the energy-mix, and improved energy efficiency in production and use;
- Improved integration and interconnection with the regional energy market
- Improved environmental standards, particularly for water and air quality and for waste treatment.

d) Performance indicators

- Lower number of casualties and traffic fatalities;
- Shift from congested means of transport to more environmentally-friendly modes;
- Higher efficiency in delivery of transport services to passengers and freight;
- Increased renewable energy share in the energy-mix;

e) Indicative budget

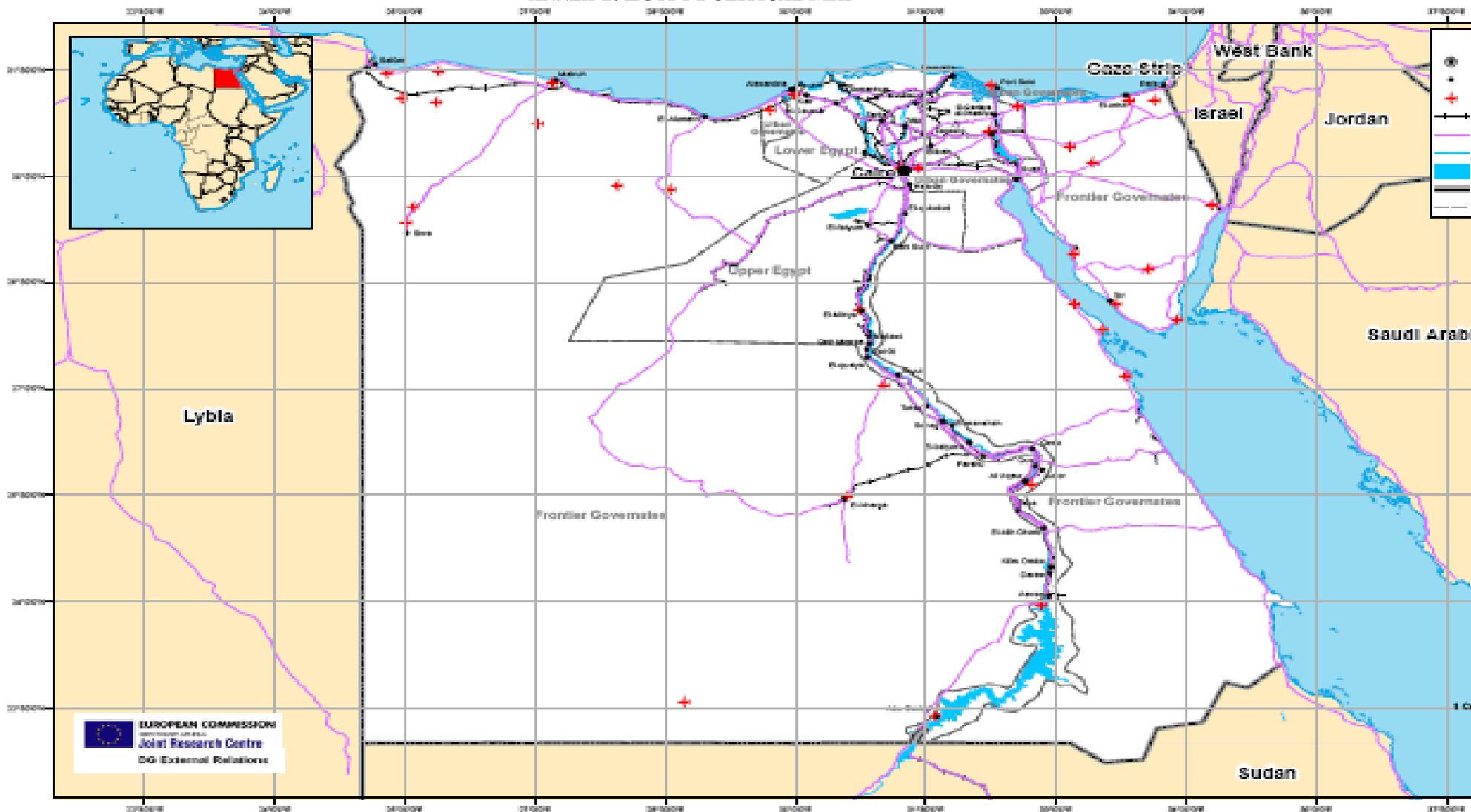
The indicative budget for this programme is €58 million in the form of interest-rate subsidies. This could attract loans of around €250 million to €300 million.

6.5. Budget and phasing of the programme (in million €)

Priorities*	2007	2008	2009	2010	Total NIP	% Budget
<i>Supporting Egypt's reforms in the areas of democracy, human rights and justice</i>					40	7%
Support for political development, decentralisation and promotion of good governance		13			13	
Promotion and protection of human rights		17			17	
Support for modernisation of administration of justice				10	10	
<i>Developing the competitiveness and productivity of the Egyptian economy</i>					220	40%
Support for implementation of the Action Plan Programme (SAPP), including: - trade facilitation and customs reform - economic legislation and the business environment - agriculture and SPS - transport, energy, science and technology - modernisation of the statistical system Of which:						
Technical support	17		20	33	70	
Targetted support for sector reforms		80		70	150	
<i>Ensuring the sustainability of the development process with better management of human and natural resources</i>					298	53%
Support for reform of education	120				120	
Support for public health reform			120		120	
Support for investment in the transport, energy and environment sectors (interest-rate subsidies)		29		29	58	
Total	137	139	140	142	558	100%
Potential volume of loans at subsidised interest rates: €250 million to €300 million.						

* The order of priorities follows that in the EU-Egypt ENP Action Plan.

ANNEX 1: EGYPT POLITICAL MAP




EUROPEAN COMMISSION
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Source data: GMAPD (Global digital dataset)
 from NIMA (United States National Imagery and Mapping Agency)
 except populated places from Global Discovery and country borders
 from CIA/JL, 2005.

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ANNEX 2: EGYPT ECONOMIC AND SOCIAL INDICATORS

Table 1. Egypt: Selected Macroeconomic Indicators, 2001/02–2006/07 1/

Population (2005): 70.5 million; Per capita GDP (2005): \$1,320

	2001/02	2002/03	2003/04	2004/05	Projections	
					2005/06	2006/07
(annual percentage change, unless otherwise indicated)						
National accounts						
Nominal GDP at market prices (in LE billions)	378.9	417.5	485.3	536.6	595.2	665.1
Nominal GDP (in US\$ billions)	87.5	81.4	78.8	89.5	103.5	111.8
Real GDP	3.2	3.1	4.1	4.9	5.6	5.6
CPI inflation (average)	2.4	3.2	10.3	11.4	4.1	5.5
CPI inflation (end-of-period)	2.7	4.0	16.6	4.7	5.0	6.0
Unemployment rate (percent) 6/	9.4	10.5	11.1	10.5	11.7	...
Poverty headcount index (percent of population)	18.4	...	...	19.6	...	...
Oil and gas sector						
Total oil and gas exports (in US\$ billions)	2.4	3.2	3.9	5.3	9.8	11.0
Average Egyptian oil export price (in US\$/barrel)	20.1	25.6	27.5	39.1	54.5	63.0
Crude oil production (in millions of barrels/day)	0.70	0.70	0.68	0.64	0.62	0.61
Investment and savings						
(in percent of GDP at market prices)						
Investment	18.0	16.9	16.9	18.0	18.1	19.3
Gross national savings	18.7	19.3	21.3	21.3	20.1	20.5
Savings/investment balance	0.7	2.4	4.3	3.3	2.0	1.2
General government operations						
Revenue and grants 2/ 3/	25.4	26.2	25.6	24.8	31.7	30.7
Expenditures 2/ 3/	32.5	32.2	31.6	31.8	38.8	36.7
Net Acquisition of Financial Assets 2/	2.1	3.0	2.2	2.0	1.1	2.0
Balance 2/ 4/	-9.2	-9.0	-8.3	-9.1	-8.3	-8.1
Identified financing	7.0	8.2	6.4	8.5	...	...
Statistical discrepancy	2.2	0.8	1.8	0.6	...	...
Net public debt	62.1	66.6	64.8	68.2	69.8	70.5
Monetary sector						
(annual percentage change, unless otherwise indicated)						
Broad money (M2)	15.6	16.9	13.2	13.6	13.8	14.7
Net foreign assets (contribution to M2 growth)	-0.4	2.5	5.1	8.2	11.6	5.7
Net domestic assets (contribution to M2 growth)	16.0	14.4	8.0	5.3	2.2	8.9
Domestic currency component (M2D)	13.0	10.6	11.5	19.9	15.3	...
Velocity of broad money	1.15	1.09	1.12	1.09	1.06	...
Credit to private sector	11.0	7.3	4.1	3.8	6.8	7.7
Treasury bills (91-day rate, period average) 5/	7.8	8.3	8.4	10.2	8.8	...
Stock market index (Local currency, end of period) 5/	57.2	82.2	135.7	449.7	572.7	...
External sector						
(in billions of U.S. dollars, unless otherwise indicated)						
Exports of goods and nonfactor services	15.8	18.0	22.9	28.0	32.9	36.2
Of which: non-oil goods	4.7	5.0	6.5	8.5	8.7	9.7
Imports of goods and nonfactor services	19.5	19.6	23.3	30.2	37.0	40.9
Current account balance	0.6	1.9	3.4	2.9	2.1	1.4
In percent of GDP	0.7	2.4	4.3	3.3	2.0	1.2
Capital account balance	2.5	0.8	-1.7	2.1	1.7	1.8
Overall Balance	-0.5	0.5	-0.2	4.5	3.8	3.2
External debt	28.7	29.4	29.9	28.9	31.3	29.5
In percent of GDP	32.8	36.1	37.9	32.4	30.3	26.4
External debt service (as a percent of exports of GNFS)	13.2	12.4	10.9	9.7	8.6	11.0
Gross official reserves	14.1	14.8	14.8	19.3	23.1	26.3
In months of imports (of GNFS)	8.7	9.1	7.6	7.7	7.5	7.7
Memorandum items:						
Nominal effective exchange rate (1991=100, period average)	120.6	96.1	71.4	70.2	...	...
Real effective exchange rate (1991=100, period average)	153.1	122.2	95.8	99.8	...	...
Exchange rate (LE/US\$; average) 5/	4.33	5.13	6.16	6.00	5.75	...

Sources: Egyptian authorities; and IMF staff estimates and projections.

1/ Fiscal year ends June 30.

2/ Authorities' estimates based on revised source data and new budget classification. New series are not comparable to those in last staff report (Country Report No. 05/177).

3/ There is a series break in 2005/06, when notional recording of fuel subsidies was made explicit in budget expenditures. The counterpart is a larger notional payment by the oil company (EGPC) by an equivalent amount (see footnote 3 of Table 3).

4/ As calculated by the MOF, but adjusted by: (i) including the repayment of past arrears as a capital spending

item (purchase of nonfinancial assets), and (ii) eliminating the creation of arrears from the financing side, as well as from capital spending.

5/ For 2005/06, averages refer to July 05–May 06 period; for stock market, index as of April 2006.

6/ For 2005/06, unemployment rate as of December 2005.

Egypt, Arab Rep. Country Profile Source World Bank

	1990	1995	2001	2002	2003
1 Eradicate extreme poverty and hunger	<i>2015 target = halve 1990 \$1 a day poverty and malnutrition rates</i>				
Population below \$1 a day (%)	4.0	2.6	..	..	..
Poverty gap at \$1 a day (%)	0.5	0.5	..	..	..
Percentage share of income or consumption held by poorest 20%	..	..	..	..	..
Prevalence of child malnutrition (% of children under 5)	10.4	16.8	..	..	8.6
Population below minimum level of dietary energy consumption (%)	..	..	..	3.0	..
2 Achieve universal primary education	<i>2015 target = net enrollment to 100</i>				
Net primary enrollment ratio (% of relevant age group)	83.7	..	90.3	91.4	..
Percentage of cohort reaching grade 5 (%)	..	..	98.0	..	..
Youth literacy rate (% ages 15-24)	..	..	..	..	..
3 Promote gender equality	<i>2005 target = education ratio to 100</i>				
Ratio of girls to boys in primary and secondary education (%)	81.3	..	93.4	94.2	..
Ratio of young literate females to males (% ages 15-24)	..	..	..	..	..
Share of women employed in the nonagricultural sector (%)	20.5	18.9	20.7	22.4	21.6
Proportion of seats held by women in national parliament (%)	4.0	..	..	2.0	2.0
4 Reduce child mortality	<i>2015 target = reduce 1990 under 5 mortality by two-thirds</i>				
Under 5 mortality rate (per 1,000)	104.0	71.0	..	..	39.0
Infant mortality rate (per 1,000 live births)	76.0	56.0	..	..	33.0
Immunization, measles (% of children under 12 months)	86.0	89.0	97.0	97.0	98.0
5 Improve maternal health	<i>2015 target = reduce 1990 maternal mortality by three-fourths</i>				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	..	..
Births attended by skilled health staff (% of total)	..	46.3	..	..	69.0
6 Combat HIV/AIDS, malaria and other diseases	<i>2015 target = halt, and begin to reverse, AIDS, etc.</i>				
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	..
Contraceptive prevalence rate (% of women ages 15-49)	..	47.9	..	..	60.0
Number of children orphaned by HIV/AIDS	..	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	41.8	35.9	29.9	29.0	28.1
Tuberculosis cases detected under DOTS (%)	..	43.5	48.6	53.2	56.2
7 Ensure environmental sustainability	<i>2015 target = various (see notes)</i>				
Forest area (% of total land area)	0.1	..	..	..	..
Nationally protected areas (% of total land area)	..	..	..	..	9.7
GDP per unit of energy use (PPP \$ per kg oil equivalent)	3.9	4.6	4.8	4.8	..
CO2 emissions (metric tons per capita)	1.4	1.6	..	..	..
Access to an improved water source (% of population)	94.0	..	..	98.0	..
Access to improved sanitation (% of population)	54.0	..	..	68.0	..
Access to secure tenure (% of population)	..	..	..	..	..
8 Develop a Global Partnership for Development	<i>2015 target = various (see notes)</i>				
Youth unemployment rate (% of total labor force ages 15-24)	..	..	..	..	..
Fixed line and mobile telephones (per 1,000 people)	30.2	46.8	146.9	177.2	211.7
Personal computers (per 1,000 people)	..	4.3	15.5	16.6	21.9
General indicators					
Population million	52.4 million		58.2 million		65.2 million 66.4 million 67.6
Gross national income (\$) billion	42.5 billion		57.6 billion		100.0 billion 97.8 billion 93.9
GNI per capita (\$)	810.0	990.0	1,530.0	1,470.0	1,390.0
Adult literacy rate (% of people ages 15 and over)	..	..	..	..	..
Total fertility rate (births per woman)	4.0	..	..	3.2	3.1
Life expectancy at birth (years)	62.8	..	..	68.9	69.1
Aid (% of GNI)	12.9	3.3	1.3	1.4	1.1
External debt (% of GNI)	78.6	55.6	29.5	33.4	38.2
Investment (% of GDP)	28.8	17.2	16.9	16.9	17.1
Trade (% of GDP)	52.8	50.0	39.5	38.8	45.3

Source: *World Development Indicators database, April 2004*

Note: In some cases the data are for earlier or later years than those stated.

Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Goal 3 target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.

Goal 4 target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

Goal 5 target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

Goal 6 targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.

Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

Goal 8 targets: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

ANNEX 3: EGYPT ENVIRONMENT PROFILE

1 State of the environment

The key environmental issues in Egypt are air and water quality, waste management, coastal pollution, nature protection and desertification.

Air quality is deteriorating in Egypt, particularly in Cairo and Alexandria, where more than 80% of industrial activity takes place. The main causes are energy-inefficient production techniques, smelters and solid waste dumps, mobile sources on congested roads and natural environmental hazards, such as dust and seasonal sand storms.

As regards **water quality**, the scarcity of freshwater resources, mainly from the Nile, has intensified with population growth and the expanding economy (the Nile provides 90% of Egypt's water). The lack of proper sanitation systems, particularly in rural areas, requires attention.

Regarding **waste management**, the accumulated hazardous and non-hazardous municipal, agricultural, construction/demolition and industrial waste, plus residues from dredging of waterways along with inefficient waste prevention, collection, transport, treatment, recovery and final disposal are major concerns. A large amount of waste ends up in open dumps. Composting is an important method of waste treatment in this country.

With regard to **nature protection**, Egypt has many rare species and unique habitats as well as coastal and marine resources. However, the country is suffering from loss of biological diversity due to modest public awareness and lack of resources.

The **marine environment and coastal zones** are under heavy pressure both from industrial, urban and tourist development and from agriculture. These are causing shoreline erosion and flooding, water pollution and deterioration of natural resources and habitats. Oil spills in the Gulf of Suez and the Red Sea are a major concern. Tourism development along the Red Sea coastline requires extensive space.

Regarding **land use**, farmland is scarce and does not meet the needs of a growing population. Human settlements show huge regional disparities and urban primacy along with the spread of informal areas inside and on the fringes of cities. Desertification – degradation of irrigated and rainwater farmland – is spreading as a result of the inherent fragility of the ecosystem.

As regards **industrial pollution**, the main industries in Egypt are textiles, wood, chemicals, building materials, metal industries and food products. Industrial emissions are affecting air and water quality, and old technologies and production processes are resulting in inefficient use of natural resources.

Key **trans-boundary environmental issues** which affect Egypt include pollution of the Mediterranean and Red Seas as well as the scarcity of the Nile's water resources. Egypt is also a major contributor to transfrontier shipments of hazardous waste.

Regarding **global environment issues**, Egypt is expected to be seriously affected by the consequences of climate change. The country ratified the Kyoto Protocol to the UN Framework Convention on Climate Change in January 2005 and therefore needs to implement its relevant provisions and, where appropriate, concrete policies and measures to reduce greenhouse gas emissions, in particular in the energy sector and heavy industry. A designated national authority for the clean development mechanism (CDM) was established in 2005. It is not clear whether a national CDM Strategy for Egypt has been adopted.

2 Environment policy

The first National Environment Action Plan (NEAP) was prepared in 1992, with the aim of improving incentives for environmental management. A number of measures were envisaged for different areas of the environment and also to strengthen the administrative set-up.

In 1998 the Minister of the Environment published a seven-point policy implementation framework: to foster partnerships and coordination at national level; to enhance partnerships at bilateral, regional and global levels; to implement the 1994 Environment Protection Law; to enhance nature protection; to strengthen the Egyptian Environmental Affairs Agency (EEAA); to support environmental management systems; and to use market-based instruments.

The 1992 NEAP was updated in 2002 to cover a further period of 15 years (2002-2017) focusing on water quality, air quality, management of land resources, desertification, protection of the marine environment, solid waste management, biodiversity and biological safety. The Plan comprises 14 sub-programmes on specific issues, in which reduction of pollution, minimisation of health hazards and improvement of quality of life are Egypt's short-term environmental objectives, while preservation of the natural resource base, national heritage and biodiversity are regarded as medium-term objectives. Integration of environmental considerations into all relevant national policies, plans and programmes is considered an overall strategic objective of Egypt's environment policy.

President Mubarak convened an inter-Minister meeting to discuss sustainable development and environmental protection in May 2002. This resulted in a set of Presidential Directives, in particular on freshwater, air pollution, environmental impact assessment and the administrative set-up for the environment in the country. However, so far little progress has been made on taking these Directives further

3 Environmental legislation and implementation

The Environment Protection Law adopted in 1994 serves as the basic legal framework for environmental protection. It came into force in 1998, combining existing legislation and penalties with provisions on hazardous waste and environmental management. It also provides the possibility to adopt sectoral and issue-specific Presidential Decrees. In addition, it enhanced the powers of the Environmental Affairs Agency and made environmental impact assessments mandatory. The regulations implementing the Environment Protection Law were amended in November 2005.

With regard to **horizontal issues**, the 1994 Environment Protection Law and its implementing regulations require an environmental impact assessment (EIA) to be

conducted for all new projects and whenever existing projects are reviewed or changed. The EIA procedure is part of the permit system run by the competent authority. The administrative capacity of the authorities is insufficient to conduct EIAs properly, in particular for the fast-growing tourism sector. Nor do EIAs include regional or sectoral environmental assessments (there is no legislation on strategic environmental assessment). Consultation and public participation in the process of preparation and review of EIAs are not mandatory, although the improved EIA procedures introduced in November 2005 make greater provision for public consultation. However, this still does not apply to all EIAs.

Egypt has a programme in place on participation by NGOs and civil society in environmental activities. The 1994 Environment Protection Law requires representation of NGOs on the board of the EEAA and provides the possibility for NGOs to take legal action in order to enforce environmental requirements. More than 270 NGOs are increasingly involved in project implementation, in public debate and in ensuring compliance with environmental laws. However, very few NGOs manage to influence the public. The media are becoming increasingly interested in environmental issues.

With regard to reporting, the Egyptian Environmental Information System (EEIS) and the Environmental Information and Monitoring Programme (EIMP) are in place. The EEIS produces environmental status reports, based on real-time data on air and water quality generated by the EIMP. The first state of the environment report was published in 2005.

In the field of **air quality**, the main legal provisions are found in the 1994 Environment Protection Law and its implementing regulations. There is also a Law on transport air pollution, which was adopted in 1973. The air quality standards are broadly in line with WHO guidelines. However, the decrees on the emission limits for stationary sources do not provide for any significant improvement, and the standards on vehicle emissions are not enforced. Agricultural residues are not considered solid waste and burning of such residues therefore remains unregulated. It is felt that improvements in air quality could be achieved by making wider use of natural gas in industry.

As regards **water quality**, numerous laws and Presidential and Ministerial decrees have been adopted. The most important are the 1982 Law on protection of the River Nile, the 1984 Law on irrigation and drainage and the 1994 Environment Protection Law. In 2001 the Ministry of Water Resources and Irrigation prepared the national plan for the protection of water resources from pollution (2001-2012). However, the legislation does not appear to provide sufficient clarity on institutional matters. Pollution prevention and non-conventional sanitation/treatment also require further attention. The Ministry of Water Resources and Irrigation (MWRI) carries out inspection visits to large industrial establishments, which are responsible for the largest share of the untreated industrial waste in the Nile. Although some industries are undertaking treatment activities, treatment plants are not always operating effectively. Projects addressing drinking water, sewage connection and wastewater treatment are in progress.

As regards **waste management**, the key legislation is the 1967 Law on control of solid waste management (including hazardous waste) and the 1994 Environment Protection Law. The 1967 Law specifies that local authorities are responsible for waste collection and disposal and for licensing waste collectors and contractors. An integrated solid waste management strategy was adopted in 1998. It has brought several positive achievements to

date, such as involvement of Governors in policy implementation, private-sector involvement in solid waste management services and increased awareness. However, waste continues to be a challenge, particularly prevention, collection, treatment, recycling, recovery and final disposal.

With regard to **nature protection**, the 1983 Law on natural protectorates and biological diversity empowers the Prime Minister to declare certain areas natural protectorates. Currently, there are 24 protectorates in Egypt covering about 10% of the country's total surface area. The Ministry plans to extend this to 17% by 2017.

There is no specific legislation governing **industrial pollution**. Instead, industry should comply with the range of legislation governing waste, water and air pollution as listed above.

As regards the **marine environment and coastal zones**, the 1994 Environment Protection Law assigns the EEAA responsibility for initiating and coordinating integrated coastal zone management (ICZM). A National ICZM Committee has existed since 1994, but is not currently active. A National ICZM Plan was initiated in 1996, and a plan was adopted for the Egyptian Red Sea Coastal Zone in 1998.

Overall, framework legislation on environmental protection and individual sub-sectors is in place but needs to be further developed. However, some of the implementing legislation is missing and in a number of cases emission standards cannot be enforced.

4 Administrative capacity

Seventeen institutions are involved in environmental matters in Egypt. The main impediment to efficient and effective implementation and enforcement of legislation is the fragmentation of responsibilities between the authorities at both national and Governorate levels. Enhanced coordination and cooperation are therefore needed.

In 1997 the Ministry of State for Environmental Affairs (MSEA) was established. The Egyptian Environmental Affairs Agency (EEAA) is the executive arm of the Ministry. It develops policies for the MSEA. The Ministry and the Agency are responsible for strategic planning, i.e. adoption of action plans. The EEAA oversees implementation of the policy and monitors progress on action plans. The MSEA and other relevant Ministries are responsible for licensing. The EEAA is involved in enforcement, including in inspections, together with the Ministry of Manpower and the Ministry of Health. Traditional legal process is required for enforcement.

A number of other Ministries are involved via their environment units. Inter-ministerial coordination should be ensured by a variety of means, such as cooperation protocols and representation of various Ministries on the EEAA's Board of Directors. The EEAA plays a role in integrating environmental considerations into discussions in working groups.

The financial and human resources currently available at the MSEA, the EEAA and in the regional offices fall short of what is needed. It is generally recognised that, due to lack of information, general awareness of global and national environmental issues in Egypt remains low. A programme to add an environmental dimension to school curricula is currently being

undertaken. The Environment Protection Fund (EPF) was established in 2000 to provide financial assistance on a competitive basis for projects that benefit the environment.

In order to ensure strategic planning and to implement and enforce environmental legislation, strengthening administrative capacity at national, regional and local levels poses a major challenge for Egypt, including in terms of coordination between relevant authorities.

5 Participation in regional and international processes

Egypt has ratified several international and regional environmental conventions to which it is party, with the exception of the amendments to the Land-Based Sources Protocol to the Barcelona Convention. Egypt has not signed the new Emergency Protocol to the Barcelona Convention.

At regional level, Egypt is a central participant in the **Council of Arab Ministers for the Environment** (and signatory of the Abu Dhabi Declaration on water, land, marine, coastal and wetland protection), **the African Ministers Conference on the Environment**, **the Mediterranean Action Plan** and the **Regional Convention for the Protection of the Red Sea**. Egypt is participating in the Mediterranean regional component of the **EU Water Initiative** announced at the 2002 World Summit on Sustainable Development.

In November 2005 the Euro-Mediterranean partners, including Algeria, collectively committed themselves to “endorse a feasible timetable to de-pollute the Mediterranean Sea by 2020”. Successful achievement of the goal to reduce pollution levels will require a combination of both regional and national action with the support of all players in the Mediterranean region. The key goals of the **Horizon 2020 initiative** are to tackle major sources of pollution, including industrial emissions, municipal waste and urban waste water.

At **bilateral level**, cooperation agreements on environmental issues exist between Egypt and, for example, Morocco, Tunisia, Syria, Sudan and Jordan.

6 Key areas where action is required

Egypt faces significant challenges in order to promote environmental protection. Key areas include air and water quality, waste management, coastal pollution, nature protection and desertification.

Its institutional and administrative capacity requires strengthening, in particular as regards implementation and enforcement.

The key areas where action is required are identified in the environment section of the EU-Egypt Action Plan, established in the framework of the European Neighbourhood Policy. It defines a set of priorities for action with regard to environmental governance, issue-specific activities and international and regional cooperation on environmental issues. Progress towards implementing the Action Plan will also contribute to meeting the objectives of the Association Agreement.

ANNEX 4: EU MEMBER STATES AND EC PROGRAMMES BY SECTOR

Beyond their contribution to EC activities, Member States – 23 of which have missions in the country – maintain varying degrees of bilateral cooperation with Egypt.

Austria: As Egypt is not a focal partner country for Austria in the field of development aid, unfortunately no further disbursements are planned for 2007 for Austria's last and only cooperation project in the Republic of Egypt "Egyptian National Cleaner Production Center".

Belgium: Belgium has no official development cooperation projects with Egypt. Nevertheless a number of leading-edge cooperation initiatives exist between universities and research centres. Belgium also has more than half a dozen archaeological projects in the country.

Denmark: Disbursement of DKK 63 million is planned in Egypt for 2007. Of this amount DKK 51 million will go to the ongoing Environment Sector Programme, DKK 2 million to the energy sector and DKK 10 million to the water sector in Aswan Governorate.

Finland: Under the transition strategy agreed between Finland and Egypt for 2005-2007, the grant-based Government-to-Government development cooperation projects will be phased out by the end of 2007. The objective of the strategy is to move from development cooperation to more diverse relations and, particularly, promote business and institutional partnerships in the fields of the environment and the information society. In 2007 Finland will continue to finance three projects focusing on mental healthcare, an antiquities information system and wastewater treatment. Through the World Bank, Finland will contribute to the TA component of the Second Pollution Abatement Programme (EPAP II) in 2006-2008. The Embassy is supporting civil society organisations and local cooperation between Egypt and Finland. Business partnerships are promoted by the Finnpartnership programme of Finnfund, and a concessional credit scheme will be finalised soon.

France: France will focus its bilateral cooperation with Egypt on: (i) education, with an emphasis on promotion of the French language through a network of bilingual school and cultural centres; (ii) higher education and research, including strengthening the newly created Université Française d'Égypte, continuing with four trilingual (French, Arabic, English) higher education diplomas (in international business law, political sciences, management and marketing and agro-business), exchanges of scientists and promotion of joint research works and support for several French archaeological missions in collaboration with the Institut Français d'Archéologie Orientale; (iii) technical and human development, in particular in the areas of health (exchanges of hospital personnel and fellowships), urban planning (in Cairo and Port Saïd), good governance (training for civil servants and judges, development of civil society and the fight against corruption) and agriculture (managed by the France-Egypt Liaison Office for Agriculture); (iv) cultural exchanges, led by the three French cultural centres active in Egypt, in the form of organisation of exhibitions, artistic events and cooperation with the media.

The French cooperation budget in these four fields totals some €6.9 million per year (international staff, including TA, excluding salaries plus €10.7 million, including international staff and TA salaries).

The French Agency for Development (AFD) will open an office in Cairo at the end of 2006. It will soon start funding its first project, a €40 million loan within the framework of the second Air Pollution Abatement Programme (APAP II). The AFD should gradually build up a portfolio of loan-funded projects worth €100 million a year. It will not provide any grant aid to Egypt.

Germany: Egypt is one of the priority partner countries for Germany's development cooperation. The main sectors in the Governmental bilateral development cooperation are water, the environment and sustainable economic development. In the water sector, German-Egyptian cooperation is promoting improvement and expansion of agricultural irrigation and drainage systems and safeguarding of the quality and distribution of potable water. The cooperation on the environment is aiming at effective and environment-friendly use of natural resources in industry and in power plants and at promoting renewable energy sources such as wind power. Concerning sustainable economic development, German-Egyptian cooperation is promoting job creation and income opportunities by providing training, advisory and financial services and by supporting the competitiveness of micro-, small, and medium-sized enterprises. The Mubarak-Kohl Initiative, founded in 1991, is an example of a longstanding dual vocational training programme especially designed to meet the demand for qualified personnel in the growing private sector. Commitments agreed upon at the Governmental negotiations in December 2004 add up to €64 million of financial cooperation, €15.5 million of technical cooperation and €30 million of debt swap. The next Governmental negotiations will be in September 2006 in Cairo. The main German institutions for development cooperation are the German Agency for Technical Cooperation (GTZ) and the German Development Bank (KfW) which implements financial cooperation. Furthermore, political foundations and agencies which specialise in human resources development are involved in bilateral and regional cooperation programmes.

Italy: Currently Italy's development assistance to Egypt focuses on the environment, health, vocational training and micro credit sectors. Italy will maintain a strong priority in the development business and private sector.

Netherlands: The Netherlands development cooperation assistance to Egypt is targeted on the water sector (water resources management and drinking water/sanitation) and the themes of gender, human rights/good governance and private-sector development.

Consequently, programmes are focusing on:

- National water resources policies
- Reform and capacity strengthening at the Ministry of Water and Irrigation
- Drinking water and sanitation
- Water sector and governance
- Human rights and governance
- Women and girls rights
- National budget, transparency and efficiency
- Private sector and development

Sweden: Most of Sweden's activities in Egypt are part of a regional MENA programme. Following a new Strategy Paper for the region there are plans to expand the programme into two new areas - transboundary water resources, and economic development and growth. However, the amounts to be spent on these two areas are still unclear. Nevertheless, Sweden is supporting four exclusively bilateral projects in Egypt, three running and one soon to be agreed.

These are Conservation of Karnack and Luxor Temples, Digital Archiving of Old Maps and Documents, Support for Planning and GIS, plus a Capacity-Building Project on Human Rights.

In addition, there are plans for other bilateral capacity-building activities in the area of human rights, although no information on the planned disbursements is available yet.

United Kingdom: The UK Department for International Development does not maintain country specific programmes in Egypt. But some other British government funds are available to support specific projects, principally in support of good governance and economic reform.

Planned disbursements for 2007 (million €)

Sector

Country

	AU	BE	CYP	CZ	DK	FI	FR*	GE****	GR	HU	IR	IT
Agriculture/forestry							0.1**					0.14
Business/private sector/trade												13.21
Civil society/human rights						0.3	0.1					
Communication/information												
Culture							1					0.20
Education							4.2 0.7					1.8
Energy												
Environmental protection						0.3	40 AFD loan					2.15
Governance							0.15					
Health						0.51	0.15					1
Industry, mining, construction												
Multisector/cross-cutting							0.5					3.29
Other												
Poverty reduction												1.43
Tourism and antiquities						0.2						0.22
Transport and storage												
Water supply and sanitation						0.2						0.73
Total						1.51	6.9***					24.17
Debt relief							n.a.					
Regional/Sub-regional programmes						1.2						

* All amounts are estimates based on both 2006 programming and 2006 planned expenditure (salaries of international staff, both MAE and TA, are not included).

** Figure for French-funded experts' TA lodged at the Ministry of Agriculture. Does not encompass funding for projects as the latter originates from the French Food Aid Counterpart Fund (Egyptian funds).

*** AFD loan excluded.

**** The German Embassy could not provide financial details, owing to the timing of Government consultations.

	LIT	MT	NL	PL	PO	SK	SJ	ES	SW	SW	UK*****
Agriculture/forestry											
Business/private sector/trade			1.5								
Civil society/human rights			2.0						0.220		
Communication/information											
Culture			0.3								
Education											
Energy											
Environmental protection											
Governance			3								
Health											
Industry, mining, construction											
Multisector/cross-cutting											
Other									0.363		
Poverty reduction											
Tourism and antiquities									0.027		
Transport and storage											
Water supply and sanitation			6								
Total			12.8						0.610		
Debt relief											
Regional/sub-regional programmes									7.269		

***** The British Embassy could not provide financial details; projects are managed on a regional basis and funds are not yet allocated.